

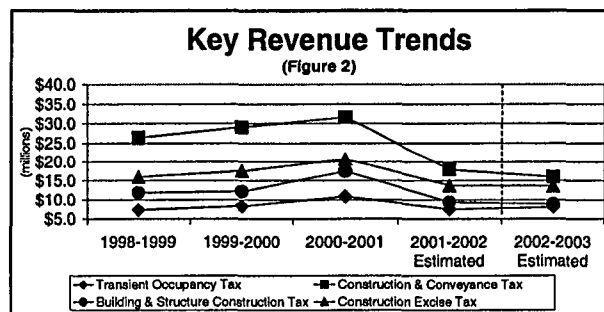
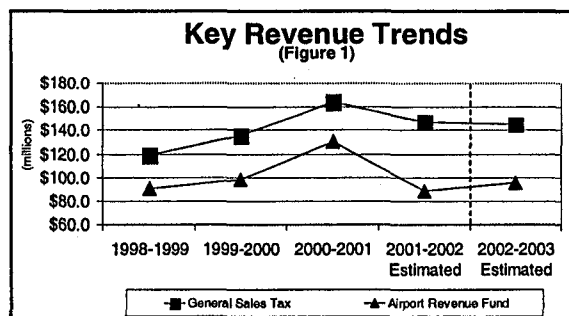
September 20, 2002

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the 2002–2003 Adopted Operating Budget for the City of San José. This budget was created under very challenging economic circumstances marked by the steepest revenue decline in the City's recent history. Despite this challenge, we believe that this Adopted Budget successfully balances projected revenues and expenditures while preserving essential services, delivering on the City Council's adopted policy priorities, and protecting our employees in the face of a significant budget reduction. This document, along with the 2002–2003 Capital Budget and the 2003–2007 Capital Improvement Program (CIP), released under separate cover, provides a comprehensive plan to accomplish these goals.

Just as they have nationally and regionally, the dual impacts of a recession and the events of September 11th have dramatically altered the City's fiscal landscape. The full significance of the past year's economic shift is detailed in the *General Fund Balancing Strategy Detail* (Attachment A). However, some noteworthy trends are included here to illustrate the magnitude of the change we have experienced in the past 12 months. Towards the end of the 2000–2001 fiscal year, we began to see clear signs on the horizon that revenues were declining. Despite this fact, the City's General Fund ended 2000–2001 with its highest total revenue performance ever — \$662.4 million. Twelve

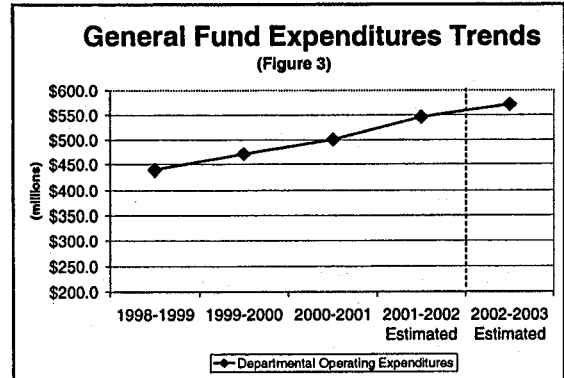
months later, we have estimated that 2001–2002 revenues will total approximately \$650.2 million, and for 2002–2003 this Adopted Budget assumes a further drop, with collections of \$635.0 million. This represents a decline of \$27.4 million in a two year period. Leading the revenue reduction list are Sales Tax, Airport revenues (not part of the General Fund) as shown in Figure 1, and Transient Occupancy Tax (TOT), and Construction-related revenues as shown in Figure 2. Sales tax revenues are projected to have dropped 12.9% in the current year, and grow only at a very modest 2.5% level next year. Transient Occupancy Tax revenues, which fell off precipitously (over 30%) following the events of September 11th have leveled off, but have shown



2002-2003 ADOPTED BUDGET MESSAGE

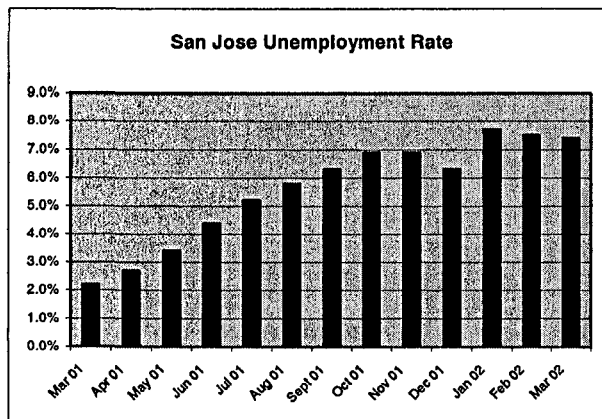
little sign of recovery. The construction and real estate-related taxes that fund much of our Capital Improvement Program declined by 30-45% in 2001-2002 and are projected to remain at that reduced level in 2002-2003. Even as revenues have declined, the cost of providing City services has continued to rise, driven primarily by personal services and the cost of supplies and services (Figure 3).

In formulating this year's Adopted Budget, we applied the same fiscally conservative principles that last year won the City a significant bond rating upgrade to AA+, the highest among California's large cities, even as the economy was slowing down. This Adopted Budget does assume that the national economy will experience a modest near-term recovery, but that the local economy will take longer to respond. The local downturn is projected to continue through most of 2002-2003. San José and the Silicon Valley are now experiencing the reverse of the trend of two years ago when our regional economy continued strong even as the State and national economies slowed. In fact, national and Statewide data suggest that an economic recovery has begun nationally (albeit very modest), with low growth likely in 2002-2003. However, as expected due to the heavy influence of the technology and telecommunications industries, our local economic revival is projected to trail the national recovery by at least six to twelve months.



ECONOMIC OVERVIEW

To formulate revenue estimates for the upcoming fiscal year, it was necessary to make some difficult judgments about how soon the pronounced economic slowdown that has impacted the region for over a year will end. By the time the September 11th events occurred, a Silicon Valley recession was in full effect, led by a pronounced falloff in business in the high tech sector impacting some of San Jose's largest tax generators. This was already having a serious impact on City revenues. September 11th, and its repercussions deepened and exacerbated that impact, negatively and directly influencing unemployment, travel and entertainment, and general consumer spending. These factors were



evident in the year-to-date data available to use while formulating this budget, with significant negative impacts on all of the City's economically sensitive revenue categories such as Sales Tax, Transient Occupancy Tax, Disposal Facility Tax, and Construction and Development-related fees and taxes.

While recovery at the national level seems to have begun on a small scale early in 2002 (the economy grew at a 5.8% annualized rate in the first quarter of the year), no such signs have yet appeared in the Silicon Valley economy.

2002-2003 ADOPTED BUDGET MESSAGE

ECONOMIC OVERVIEW (CONT'D.)

If one single source of data could be used as an indicator of the change in the local economy it is the unemployment rate. The graph (above) illustrates the dramatic change that occurred over the period of only one year. While in March of 2001, San Jose's unemployment rate was among the lowest in the nation and the State, by March of 2002, the local economy's weakness was clearly reflected in the local unemployment rate. The March 2002 San José unemployment rate of 7.4% (unadjusted) was over three times the rate of one year prior (2.2%). By March, our unemployment rate of 7.4% was greater than both the California (6.5%) and the national (6.1%) rates. That rate has remained basically unchanged, and has even risen slightly since that time.

In recent years we have become more and more reliant on the high tech industry for our economy and in our revenue base, and it is the severe and continuing slump that has hit almost all of the high technology and telecommunications industries that has caused such a disproportionate impact in this Valley and to some of the City's largest revenue generators such as Cisco Systems and Adobe Systems. The collapse has not only had a direct affect on major corporations and their earnings, but has also had a multiplier effect on other areas of the local economy: unemployment, spending (e.g., related to business-to-business sales and general retail spending), and office vacancy rates.

The majority of the City's General Sales Tax revenue activity is generated by business-to-business sales and general retail spending. The City's largest revenue source, General Sales Tax revenue, has declined the most. In the first quarter of the 2001-2002 fiscal year we experienced a 19.8% decline, only the second quarterly decline in a decade. The second quarter brought another large decline, this time of 18.2%. The third quarter was even worse, with a 24.0% fall-off.

Just as telling a sign was the fact that as we approached the end of the fiscal year, well-established local companies continued to issue financial warnings indicating that fiscal improvement appears to them to still be beyond the horizon, and that revenue and profits would continue to be below expectations. Merrill Lynch reported that revenue declined in recent quarters in eight of 13 technology sectors, including double-digit drops in enterprise hardware, semiconductors, personal computer hardware, communications equipment, connectors and semiconductor equipment. As we were constructing this budget, Federal Reserve Chairman Alan Greenspan was quoted as saying: "the recession was over a month ago, but at best, the high-tech tumble has merely slowed." (San Jose Mercury News, April 9, 2002)

This budget, and the revenue estimates on which it was built, therefore, assumes that the local slowdown will continue to be pronounced for much of the coming budget year, with the resumption of growth in City revenues lagging at least six months to a year behind a national economic upswing. The presumption is that a significant recovery in the technology industry must occur in order for the local economy to rebound.

Our own fiscal status was also not our only concern. As our budget was being considered the Legislative Analyst's Office was projecting that California faced a shortfall of approximately \$24 billion in the coming year. This is a full 25% of the State's existing General Fund budget. Balancing a shortfall of that size would require significant action, and put local government revenue streams at risk. For example, approximately 67.5% of the Motor Vehicle In-Lieu Fee (MVLFF) revenue

2002-2003 ADOPTED BUDGET MESSAGE

ECONOMIC OVERVIEW (CONT'D.)

currently received by cities is backfilled by the State. For San José, the State's MVLF at risk is estimated to be \$35.4 million (adjusted) for 2002-2003. Other State-funded programs that are at risk for reduction or elimination include Public Library Funds, SB 90 reimbursements, and Jail Booking Fee reimbursements. This budget assumes no negative impact from State budgetary actions, but we will clearly need to watch carefully as events unfold at the State level.

BUDGET OVERVIEW

This year's budget was prepared by developing investment strategies in each of the seven City Service Areas (CSA). City Service Areas integrate services provided in individual departments into the City's key lines of business as viewed from the community's perspective. The CSA Investment Strategies then integrate departmental proposals along these same business lines. The City Service Areas are: 1) Aviation Services; 2) Economic and Neighborhood Development; 3) Environmental and Utility Services; 4) Public Safety; 5) Recreation and Cultural Services; 6) Transportation Services; and, 7) Strategic Support.

In the 2002-2003 Adopted Operating Budget, the total net adopted funding is \$3,341,145,059 for all City funds (General, Special, and Capital). This is \$679,329,655 or 25.5% higher than the current 2001-2002 Adopted Operating Budget (Table 1 below). Under this spending plan, the total number of positions was decreased by approximately 0.5%, to a total of 7,418.

TABLE I
2002-2003 ADOPTED BUDGET - ALL FUNDS

	2001-2002 Adopted	2002-2003 Adopted	% Change
General Fund	\$ 817,107,260	\$ 833,522,844	2.0%
Special Funds	\$ 1,216,785,681	\$ 1,631,291,581	34.1%
<Less: Operating Transfers>	(\$ 520,090,652)	(\$ 862,999,093)	65.9%
Net Operating Funds	\$ 1,513,802,289	\$ 1,601,815,332	5.8%
Capital Funds	\$ 1,160,674,260	\$ 1,756,000,626	51.3%
<Less: Capital Transfers>	(\$ 12,661,145)	(\$ 16,670,899)	31.7%
Net Capital Funds	\$ 1,148,013,115	\$ 1,739,329,727	51.5%
Net Total	\$ 2,661,815,404	\$ 3,341,145,059	25.5%

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Net operating budget funding for 2002-2003 increased by 5.8%. This increase, however, reflects almost entirely increases in several specific special revenue fund programs, the largest being the Housing program, Airport debt service requirements, and the Sewer program. The General Fund portion of the City's Budget increased by only 2% from 2001-2002, totaling \$833,522,844. This increase was solely the result of higher carryover fund balance, required to complete prior year projects, as revenue collections for 2002-2003 are projected to decline significantly as discussed above. A large increase (51.5%) in the capital program was approved for 2002-2003. This reflects the approval of several bond issues and the implementation of major Airport improvements.

General Fund Budget Balancing Strategies

The projected decline in 2002-2003 General Fund revenues coupled with rising operating costs created a projected General Fund budget shortfall of \$35.9 million. In addition, the General Fund development-fee programs faced a separate shortfall of \$10.5 million, the result of declining development activities and associated fee collections.

Signs of the approaching economic downturn were clearly evident last June when the City Council adopted the 2001-2002 Operating Budget. In response, despite record revenues in 2000-2001, the 2001-2002 Adopted Operating Budget contained sharply reduced revenue projections for all of the City's economically sensitive revenue categories, as well as a significant reserve to protect against the approaching downturn. The wisdom of the City Council's conservative approach in its 2001-2002 budget decision-making became clear in the fall, as the combined impacts of the September terrorist attacks and the economic downturn pushed declining revenues even lower than already guarded projections. By October, with significant growth in the shortfall a virtual certainty, the City Council took two actions: an additional \$4.33 million in unanticipated year-end revenues was set aside to cover the already identified \$10 million shortfall; and a \$15.8 million reserve was established for future economic uncertainties. At the same time, as the magnitude of the economic downturn became clear, the City Administration took immediate steps to reduce expenditures approved in the current fiscal year to soften the impact on 2002-2003.

Specific reduction targets were established for each department, and hiring for non-sworn positions in departments was frozen pending approval of a cost/position management plan for each department. Specifically, departments were directed to create plans that held a substantial majority of currently vacant positions unfilled for the remainder of the year. Most positions that were not in specialized classifications, but rather generic city-wide classifications, were held vacant to provide redeployment flexibility to ensure that there would be positions available for any current employees in positions that were eliminated. Further, departmental reductions were directed to produce savings that could be included in the 2002-2003 Adopted Budget. With these actions, the Administration was able to increase the projected year-end balance for 2001-2002 by \$3.6 million.

In addition, the Administration established budgetary guidelines to protect priority service areas while reducing expenditures as a roadmap for departments in preparing their 2002-2003 proposals. The budgetary actions approved as part of the 2002-2003 Adopted Operating Budget reflect these guidelines. Priorities established by the City Council in recent policy sessions were observed, as were such priority service areas as public safety, traffic calming, the Strong Neighborhoods Initiative

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

General Fund Budget Balancing Strategies (Cont'd.)

(SNI), and capital projects delivery. This Adopted Budget also protects and advances the City's six corporate priorities: 1) performance-driven government; 2) support for effective Council policy-making; 3) neighborhood-focused service delivery; 4) customer service; 5) effective use of technology; and, 6) becoming the best public-sector employer.

A number of specific principles detailed both in the March City Manager's Budget Request and the Mayor's March Budget Message were followed in formulating the 2002-2003 Adopted Operating Budget (Attachment B documents responses contained in this budget to the referrals and direction contained in the Mayor's Message or separately from City Council action). Among these were:

- Utilization of a 24-36 month horizon so that the budget could be balanced in a way that minimizes the impact on service delivery in 2002-2003;
- Use one-time revenues, one-time expenditure reductions, reserves designated for budget balancing purposes, combined with targeted ongoing expenditure reductions to mitigate reductions in direct services in 2002-2003;
- Ensure that position reductions first target those positions that have been vacant for some time, rather than filled positions, thus ensuring that there would be a position available for every current City employee who wants to remain with the City (although not necessarily the same position);
- In order to preserve current public safety service levels, avoid the elimination of non-administrative sworn positions;
- Ensure a maintenance of effort in basic service areas and in the implementation of current policy direction, including the City's commitment to library funding, housing production, and neighborhood investments;
- Ensure that all proposals that reduce the City's ability to serve San José customers reflected the levels of use and demand for that service;
- Establish a reserve for capital expenditures related to security measures and investments;
- Ensure that requests for new resources, redeployment of existing resources, or service reductions included clearly identified outcomes that include specific service levels (cost, quality, cycle time, and customer satisfaction) that would be achieved;
- Deferral of major new General Fund program commitments, unless they could be funded through redeployment of existing resources; and,
- Utilization of fee increases in program areas where efficiencies and appropriate cost savings had been achieved to assure that operating costs are fully covered by fee revenue.

The centerpiece of these strategies was the goal of preserving our City workforce's capacity to maintain all priority services to the community. This Adopted Budget includes 7,418 positions, a net reduction of 35 positions from the prior year. Only 23 of the eliminated positions were filled and it is expected that through placements, all of those employees who wish to stay with the City will have that opportunity.

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

General Fund Budget Balancing Strategies (Cont'd.)

In addition, a review of Outstanding City Auditor Recommendations were considered in the development of the Adopted Budget. See Attachment C for details on the Status of City Auditor Recommendations with funding impact.

Fee Increases

The implementation of fee increases should only occur after all appropriate steps have been taken to ensure that operations are run efficiently. In addition, fee increases should reflect longer-term strategies to rely on existing reserves where possible and spread the increases over two or more fiscal years. This Adopted Budget includes fee increases in three major program areas: Development Services (including the departments of Planning, Building and Code Enforcement, Public Works and Fire); Recycle Plus; and Storm Sewer System Program.

Development Services includes a wide variety of service activities that allow for the entitlement and improvement of land. Fee revenues from these services are, by policy of the City Council, intended to recover the full costs of services and remain dedicated to covering those costs. Until 2001-2002, the surge in development activity over the past eight years generated reserves in excess of current service costs. As development activity subsided and current fee revenues declined in relation to service costs, the City has used those reserves to avoid declines in services that would otherwise have been necessary.

The Adopted Budget assumes that slower development activity will continue all next year. Accordingly, a three-pronged strategy was approved to equitably fund the costs of these services in the three departments. This approach included: 1) deleting and reallocating staff positions from fee programs (total 39.7 positions); 2) drawing down remaining reserves to minimal levels (by a total \$3.9 million); and, 3) a two-year phase in of fee increases coupled with a limited number of new fees for existing services (total \$3.8 million for 2002-2003). At projected activity levels and with the staffing approved in this budget, these departments should be able to meet cycle time service levels.

The Recycle Plus program has raised fees only once since its inception nine years ago. The Adopted Budget assumes a five-year program of moderate fee increases beginning in January, 2003, with an increase of 45 cents per month for the average single-family household. Increases of between 3% and 6% annually will transition residential service to full cost recovery by 2004-2005. Coupled with service enhancements approved by the City Council in conjunction with the recently completed contractor selections process, these increases will place the program on a sound financial footing with residential rates still among the lowest in the County.

Similarly, a multi-year program of moderate fee increases was approved for the Storm Sewer System Program which funds operating and maintenance costs for the City's storm sewer system, federally and State mandated pollution control activities and capital improvements to the system. Storm Sewer System rates have not been raised since 1996. Despite operational efficiencies that have been implemented over the past several years, continued cost increases for system activities have depleted reserves and diminished funding for necessary capital improvements. Accordingly, this budget

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Fee Increases (Cont'd.)

assumes annual increases of between 4.0% and 4.5% over the next three years to ensure that operating costs are fully recovered and that an essential capital program is funded. The 4% increase approved for 2002-2003 will place the single-family residential rate at \$42.10, which still is more than \$5.00 below the 1999 level. The three-year strategy will result in an increase for the average single-family household of approximately \$2 per year.

Public Safety

Despite declining General Fund revenues, the 2002-2003 Adopted Operating Budget preserves public safety services, largely through strong cooperation among the CSA partners (Fire, Police, Emergency Services and the Independent Police Auditor). Identification of budget strategies began almost immediately following the September 11th terrorist attacks, since their potential impact on a number of City resources and revenue streams was clear.

Even in this challenging fiscal environment, several investments were approved to enhance and augment public safety services. The Adopted Budget includes \$300,000 to cover the costs of a firefighter academy class targeting the hiring of paramedics. Under this plan, paramedics will be hired for a July 2002 Academy, with graduation scheduled for late October. As directed in the Mayor's Budget Message, the Office of Emergency Services (OES) will be working to make every neighborhood prepared for natural or man-made emergencies. OES will work through the Strong Neighborhoods Initiative and involve Police and Fire personnel in making our neighborhoods and residents the best prepared in the nation.

A new computerized records and information management system is expected to generate efficiencies and lessen the demand for the Police Data Specialist positions in the Police Department. The department has averaged 20 vacancies per year in this classification, and 12 of these are among the 16 vacant non-sworn positions that are approved for deletion within the Public Safety CSA for a savings in excess of \$800,000 per year.

With the voter's approval this March of the \$159 million San José 911-Fire-Police-Paramedic Neighborhood Security Act Bond Measure, implementation will begin with the new fiscal year. The full implementation plan is contained in the Adopted Capital Budget and CIP, with the projects spread out over a six-year period. The Police and Fire Departments will each be allocated a position to help manage this program, to ensure on-time, on-budget delivery of projects. Resolutions for the first public safety bond sale were brought to the City Council in July. These funds will fund land acquisition, project preparation work and the rehabilitation of existing fire stations. The rehabilitation of existing fire stations will start immediately, to upgrade the stations to essential facilities status, complete the gender privacy improvements and make much-needed repairs to kitchens and living quarters.

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Public Safety (Cont'd.)

State and federal funds are included in the budget to replace the mobile data computers in police vehicles (\$3.5 million). The data computer upgrade is part of the public safety computer-aided dispatch system, new technology designed to help dispatch officers to citizen calls in as short a time as possible.

Aviation Services

No City operation was more profoundly or immediately impacted by the events of September 11th than our Airport. The events that shocked the world also altered the aviation landscape resulting in stringent new security requirements and sharply reduced revenues from declining passenger traffic. The 2002-2003 investment strategy reflects this new world with altered near-term goals. Implementation of the long-awaited Terminal Development program will be delayed while existing facilities and operations are maintained and new security mandates are undertaken. This more conservative focus is reflected in the Adopted Budget for 2002-2003.

At the same time, the Airport has embraced fully its goal to be a good neighbor to the community. During 2001-2002, the Airport Neighborhood Services Group (ANSNG) was established under the direction of the new Airport Ombudsman. The group works in the City's neighborhoods as a partner with the SNI to minimize Airport impacts and serve as an advocate for residents. The Adopted Budget sustains these new service levels.

As the new fiscal year begins, acoustical treatment work will be starting for the Washington Elementary, Sacred Heart, and Center for Employment and Training schools. In addition, noise contour maps are being updated to add homes in the Rosemary Gardens and Fairway Glen neighborhoods. The Adopted Budget will redeploy 3.5 positions from the Airport Operating Program to the Capital Program to ensure adequate staffing levels in the Acoustical Treatment Program.

Additional programs and services in this Adopted Budget will address lower passenger traffic levels over the intermediate term, while still attempting to provide customers with quality services at reasonable rates. In addition, the Airport will continue to address new or expanded service needs, such as additional acoustical treatment in neighborhoods, increased communication with both internal and external customers, maintenance and operation of the Federal Inspection Security Facility, and increased security mandates.

The financial situation resulting from a combination of lower passenger traffic, reduced revenues, and higher security and other costs must be aggressively addressed. The Adopted Budget will temporarily defund and freeze 31 vacant positions, and create a one-time savings of \$6 million in non-personal/equipment expenditures. This should offset the dramatic drop in revenues, while protecting critical customer services and filled positions and keeping rates reasonable. It is anticipated that as activity and revenues increase, positions and non-personal/equipment funding will be added back to meet the demand for services.

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Transportation Services

The creation of the new Department of Transportation during the current fiscal year has better equipped the City in its effort to build strategies that emphasize neighborhood livability and pedestrian friendly transportation systems, while placing a greater emphasis on regional partnerships, promotion of mass transportation.

The SNI planning process has helped to identify and more quickly begin addressing neighborhood livability issues through traffic calming, enhancing pedestrian walkability and by moving more quickly to expand trails and bikeways. To support traffic calming and school safety, an additional engineer was funded who will work with schools in the SNI neighborhoods to identify needed structural improvements, educate parents and drivers and bring in enforcement where necessary. The Downtown Access Study, currently underway, will provide guidance to the City Council in deciding how to calm traffic on the one-way couplets Downtown and in the surrounding neighborhoods, while providing the access necessary to support this vital area. Implementation of this effort will become a significant work effort during 2002-2003.

The Adopted Budget continues the School Safety program under which City staff work with schools to create a site-specific plan to calm traffic and enhance school safety. Each plan incorporates the school's and the surrounding neighborhood's needs through a specific combination of engineering, enforcement, and education.

The Adopted Budget also provides for the continuance of the development of Intelligent Traffic Systems and builds on regional cooperation such as joint jurisdiction freeway improvements, a countywide expressway study and support for reauthorizing the federal *Transportation Efficiency Act for the 21st Century*. Other regional partnerships efforts will focus on BART to San José, California High Speed Rail, VTA Light rail, and other transportation alternatives.

Efficiencies have been identified that will provide savings to the General Fund while maintaining existing service levels. One example that will save \$250,000 is moving pavement crack sealing from contracting to in-house service delivery.

The Adopted Budget allocates \$16 million for street maintenance in 2002-2003 to ensure that gains achieved during the first six years of the 10-Year Recovery Plan will be maintained during this transitional year.

Significant funding for various capital improvements to City streets for additional median island landscaping, enhanced public safety from construction of several new sidewalks, crosswalks, street lights and traffic signals have been included from the utilization of the Neighborhood Investment Fund Reserve, established early in the budget process.

Project Delivery - Capital Improvements

Last year the City embarked on the "Decade of Investment," and this March, voters supported an expansion of the City's improvement plan by approving the \$159 million Neighborhood Security

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Project Delivery - Capital Improvements (Cont'd.)

Act Bond Measure that added another 36 projects to the work plan. In addition, another 100-150 SNI projects estimated at \$30 - \$40 million will be added within the next two years. Despite the economic downturn, with an adopted \$1.8 billion Capital Budget and \$3.5 billion CIP, the City has dedicated significant resources for investment in the community over the next five years.

To help manage this tremendous workload, staff has undertaken an accelerated, comprehensive review of all CIP projects to confirm schedules and maximize on-time and on-budget project delivery performance. This Adopted Budget maintains the efforts of the City Manager's new five-person CIP Action Team, that was established with three primary goals: 1) assist departments with project challenges and removal of barriers to project delivery; 2) monitor all CIP projects to ensure the City is meeting its quality and on-time, on-budget goals; and, 3) provide a one-stop CIP information resource for the public, the Mayor and City Council, and City staff. In addition, monitoring teams are forming within each CSA to ensure timely project delivery. Development of a comprehensive, reliable CIP database also is underway to help project managers work efficiently and to provide accurate, real time information on project status to the Mayor, City Council and public via the Internet. The system includes new tools for assigning and monitoring accountability for each aspect of a project.

While system improvements are in process, we continue to be very aggressive in getting construction contracts awarded. As 2001-2002 closed, we were able to nearly double the number of projects awarded from the previous year (from 73 to 131), and we expect to continue this upward trend in 2002-2003.

City Facilities and Equipment

Given the continued growth in the five-year CIP, including the addition of \$159 million for public safety projects, the Administration projects a 16% workload increase for the Public Works design and construction staff. At the same time, efficiencies such as using master consultant agreements and better teamwork will enable us to increase on-time performance targets from 70% to 80% and increase on-budget targets from 70% to 75%. In addition, redeployment of some existing City staff to the CIP will help expedite projects while maintaining the current workforce.

The approved investment strategies in equipment maintenance will translate into a reduced cost to maintain the fleet and increased operational efficiencies by revising the fleet replacement schedule and bringing the mobile fueling function in-house rather than using a contract. Reducing the City's general fleet replacement funding by \$1.25 million next year (from \$2.5 million) combined with restricting fleet replacement this year, results in the performance targets for fleet availability being reduced from 92% to 85% for non-emergency vehicles but maintained at 100% for emergency vehicles. In addition, funding this reduced level of replacements with Vehicle Maintenance and Operations Fund fund balance monies will allow us to help balance the budget by eliminating \$2.5 in General Fund monies currently allocated for vehicle replacement. A study of optimum fleet sizing is due to be completed in the Fall, which may help mitigate the availability reduction for non-emergency vehicles.

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Economic and Neighborhood Development

Even in the current budgetary climate, the City must maintain its commitment to preserving and strengthening a strong economic base in order to provide a diverse range of housing opportunities while maintaining a safe, healthy, attractive, and vital community. Silicon Valley's economic situation has created challenges in each of these areas.

The economic downturn that began in 2001 has slowed anticipated levels of new construction, but overall projections for the region, and San José in particular, remain strong. The current vacant space inventory is expected to take at least two years to absorb, if not longer, inhibiting new office construction during that time. In North Coyote Valley, infrastructure projects are expected to move forward modestly over the next five years.

The most significant budgetary impact of this slowdown is reflected in departments that provide development services. With a \$10.5 million gap between the fee revenue projected from 2002-2003 development permits and the work necessary to provide development services to new and ongoing projects, the challenge is to continue to improve service delivery and to retain trained staff. Several balancing strategies are reflected in this budget, including staff reductions and redeployments, a phase-in of fee increases to approach cost recovery, use of most of the reserves in fee revenues built from prior years. During 2002-2003 the Administration will be using the results of a study of the City's development service operations by Zucker Systems to identify any potential opportunities to improve the efficiency and quality of services in this area.

In the face of these economic conditions, the City remains committed to retaining and attracting new businesses in San José. For example, the City and Agency staffs are working together to implement the Mayor's Ten Point Economic Plan to foster continued economic growth in San José, supporting both large and small enterprises. The Plan includes several initiatives such as improving small business lending programs, recruiting biotech companies, and establishing a "tenant improvement" program to expedite plan check and reduce business costs – thereby giving San José a competitive edge over other Silicon Valley cities.

San Jose also remains committed to being the regional leader in providing new affordable housing for all income groups. While the construction of new market rate housing has slowed, the City's affordable housing programs are less threatened because redevelopment tax increment revenues remain strong. These programs include efforts such as the Housing Opportunity Study, rehabilitation of existing housing stock, first time homebuyer programs, teacher housing assistance, and aggressive pursuit of tax credits to leverage private capital. Additional numbers of affordable units are included in largely market rate projects being built in the Downtown and surrounding redevelopment project areas.

Building Strong Neighborhoods

As we enter 2002-2003, investment priorities have been identified for 11 neighborhoods through the SNI process and nine others have plans in progress. In the coming year, these neighborhoods will be transitioning from planning to implementation. Included in the Adopted Budget are

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Building Strong Neighborhoods (Cont'd.)

investments totaling approximately \$129 million over the next three to five years using primarily Redevelopment Agency funds, supplemented by parks and library bond funds, grants and normal operating and capital budgets. Of the total amount, approximately \$55 million has been set aside to fund a reserve that would be used to implement "top ten" priorities identified in the SNI area plans, as well as other SNI needs that may be identified as we proceed through the implementation phase. A reserve of this magnitude is necessary to ensure adequate resources for the nine remaining SNI plan areas, and to leverage initial investments that may require additional resources to achieve the desired results in all neighborhoods. A summary of the approved SNI funding for 2002-2003 is provided in Attachment D.

In developing the Adopted Budget investments, staff followed these strategies:

- Fund top ten neighborhood priorities, as directed by City Council, with a special emphasis on the first three that require additional monetary investments;
- Maximize the leveraging of resources to ensure that significant progress is made on the top ten priorities within the next three to five years;
- Support priorities that will build and enhance the community's capacity to collaborate and accomplish their goals independently of the City;
- Invest in priorities that leverage resources across multiple SNI areas (e.g. the couplet conversion); and
- Fund priorities that facilitate an improved, more responsive City service delivery system in the neighborhoods.

The majority of priorities identified through the neighborhood planning process are for capital projects and/or the expansion of City services in order to better meet the needs of the neighborhoods. Examples include streetscapes, sidewalks, parks, libraries, recreation programming, childcare, community centers, housing, code enforcement, neighborhood safety and traffic.

Environmental and Utility Services

On July 1, new recycling and street sweeping contracts with terms of up to 11 years based on good performance took effect. This is the Recycle Plus transition, which has as its theme "Clean 'n Green." The service enhancements incorporated in these contracts, including a reduction in the amount of sorting that customers have to perform, will be fully implemented by the end of the calendar year and are expected to further increase residential recycling efforts and improve street cleanliness. As discussed earlier, a five-year strategy of modest fee increases was approved to transition the program to full cost recovery and maintain these enhanced service level. Recycle Plus rates have been increased only once since the program's inception in 1993.

An adjustment to remove the current exemption in the Disposal Facility Tax for solid waste used as Alternate Daily Cover (ADC) was also approved. ADC currently serves as a cheaper alternative for landfills to provide garbage cover, compared to dirt and other materials, but it also serves as an

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Environmental and Utility Services (Cont'd.)

incentive for generators to dump waste rather than recycle yard waste material. With this change being approved, effective next fiscal year, solid waste classified as ADC will be subject to the current Disposal Facility Taxes (DFT) of \$13/ton. It is anticipated that an additional \$1.8 million in DFT revenues will be collected in the General Fund in 2002-2003.

In partnership with our neighborhood Business Districts, \$300,000 of Redevelopment Agency funding is included in the SNI investment strategy to better clean streets. This has the added benefit of protecting local creeks and streams by removing debris from gutters and streets before storm water runoff drains into them. To enhance parking compliance in conjunction with street sweeping, a parking enforcement team of five is included who will work with willing neighborhoods to educate, promote and, if necessary, enforce parking regulations. As a cost efficiency effort, fire hydrant maintenance has been transferred from the Transportation CSA to water providers.

Additional efficiencies approved include a reduction of 13 positions at the Environmental Services Department Laboratory for an ongoing savings of \$788,000, and the elimination of a heavy equipment operator (-\$72,000) at the Water Pollution Control Plant.

The neighborhood planning efforts underway as part of the SNI reflect a need for storm water-related improvements. We will be continuing our efforts with each neighborhood to identify and construct solutions to drainage priorities. Strategies for addressing citywide storm water issues including the impact of the new NPDES permit will also be addressed during the fiscal year. As discussed in the fee section, a phase in over three years of fee increases was approved.

Continuing the City's effort to promote a "green community," the Adopted Budget includes the utilization of a State grant to deploy additional Public Area Recycling bins throughout the City (\$260,000) in addition to the ongoing "Clean 'n Green" recycling and street sweeping program. The Adopted Budget also includes \$150,000 for the development and incorporation of green building practices into our Capital Improvements Program.

Recreation and Cultural Services

During challenging economic times, the City's ability to provide comprehensive recreational and cultural programs plays an even more critical role in ensuring the livability of our community. This Adopted Budget maintains a number of critical efforts in this area.

We continue the development and construction of parks and libraries throughout the neighborhoods as part of the \$440 million voter approved bond measures. When complete, nine years from now, 80 parks, nine community centers, two sports complexes (soccer and baseball), and 20 libraries will be built, renovated and/or expanded. Added to the CIP implementation effort will be the proposed system of trails. The Adopted Budget includes a new trails coordinator position funded from existing resources to act as the primary contact point and work with an interdepartmental tactical team to schedule and track to completion all trail projects. Significant

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Recreation and Cultural Services (Cont'd.)

funding for various capital improvements to neighborhood parks, community and school facilities have been included from the utilization of the Neighborhood Investment Fund Reserves.

Even as the Adopted Budget maintains efforts in these critical areas, the CSA departments have committed to significant reductions. The Department of Parks, Recreation and Neighborhood Services will achieve operational savings through efficiency improvements totaling \$407,000. Approved for the Conventions, Arts and Entertainment Department were a number of cost-cutting measures totaling \$227,000 that will reflect the decrease in revenue and service demands in the hard hit travel related services.

Improving efficiencies and maximizing resources will be achieved by instituting joint facility management of the Alviso Library and Community Center as well as the Biblioteca with the Washington Youth Center. Wherever the opportunity presents itself we are leveraging resources including such examples as the \$3 million match for BEST, \$2.7 million Work Force Investment Youth grant, \$1,585,150 California grant for the LEARNS After School program, \$920,000 Santa Clara County Juvenile Justice Grant for community-based aftercare, and the \$620,000 Safe Schools grant. A redeployed position of grant coordinator is included to provide greater capacity with grant making. And the Recreation and Cultural Services CSA will continue to explore other service delivery innovations. The Libraries Innovative Branch Services Model provides a path for how we can meet the increasing service demands of a growing library system, and the use of E-technology represents a major component of that effort.

Approved to assist in the implementation of the Blueprint for Bridging the Digital Divide is an allocation of \$77,000 for staffing. Also currently under development is a comprehensive strategy linking the Mayors Four Point Smart Start Initiative with the Blueprint for Bridging the Digital Divide. Some \$1.1 million from the Healthy Neighborhoods Venture Fund will help continue the Homework Center program and an additional \$370,000 will expand the Safe Schools Program to the rest of the middle and high schools. Finally, funding has been provided for the opening of the Blossom Hill Library, Alviso Community Center and West Valley Branch Library. In addition, funding has been set aside for the furniture, fixture, and equipment for the Blossom Hill Library due to open in 2003-2004.

Employee Services

In response to the current fiscal environment, the Employee Services CSA focused its resources for the upcoming fiscal year on 1) retaining and developing the existing workforce, 2) ensuring that the limited hiring that takes place produces highly qualified and committed employees and 3) enhancing customer access to information. Two approaches were used in developing the budget reductions: redeployment of current CSA staff to strengthen and broaden Citywide training programs; and crafting reductions that eliminated vacant positions and reduced least critical non-personal expenditures, thus minimizing the need to reduce filled positions. By way of example, reductions were approved in contractual expenses for the health and safety area without affecting the ability to respond to emergencies and safety compliance issues by redeploying knowledgeable staff in that

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Employee Services (Cont'd.)

division to conduct the training and assessments. The Employee Services CSA's budget reduction strategy results in retaining adequate resources for its core services of hiring staff and redirects staff to improve the level of training support.

Savings of \$484,000 were achieved by reducing recruitment and marketing (\$150,000) and by the elimination of the Human Resources Improvement Reserve (\$334,000).

During the past year, an assessment of the current delivery of employee-related services was also completed, with the assistance of Arthur Andersen and input from employees through focus groups, interviews and surveys. The result of the assessment is a new service delivery model that more closely aligns employee-related services. An Employee Services Department that became operational with the new fiscal year integrates related functions to improve day-to-day coordination, the provision of services, and to create greater opportunities for strategic planning in employee services areas.

Under the reorganization, the Workers' Compensation Program (currently in the Finance Department) has been consolidated with the Health & Safety Core Service to achieve three improvements: 1) the facilitation of much-needed comprehensive planning; 2) to implement training and safety programs; and, 3) to target problem areas that contribute to constantly rising costs in workers' compensation claims. The creation of a new Customer Service unit will assist employees and prospective employees seeking assistance. In addition, the training and development functions will be elevated in the new Employee Services Department to facilitate development of a comprehensive strategy to use the organization's training resources to better equip our employees to respond to changing demands.

The new organizational structure also establishes a close working relationship between Employee Services and Employee Relations, including a transfer of some staff from Equality Assurance to Employee Relations. The enhanced coordination maintains the confidentiality required by Employee Relations to carry out its responsibilities as a unit of the City Manager's Office. Employees in Equality Assurance who perform discrimination and harassment investigations have been transferred to Employee Relations to streamline these efforts, which are currently being handled by both units. Other Equality Assurance functions that are directly related to labor compliance have been transferred to the Public Works Department for greater support of efforts in labor compliance.

Finance and Technology

Four underlying principles were followed by the Finance and Technology CSA in approaching the budget process for fiscal 2002-2003: 1) deferring consideration of any new programs or systems; 2) maintaining staff positions that have a direct impact on revenue production; 3) reallocating direct charges to operating departments for services provided; and, 4) decreasing CSA expenses by transferring accountability to departments. Reductions in maintenance support have been targeted to those areas that will not adversely affect the ability of employees to use technology in the

2002-2003 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Finance and Technology

performance of their job functions and to protect public access now and in the future as more services are made available through additional e-government initiatives. Finally, opportunities were sought to reduce insurance expenditures without increasing financial risk or liability.

CAPITAL BUDGET HIGHLIGHTS

Despite the fact that we are experiencing a weakened economy that has reduced revenues available for both operations and capital investments, the 2003-2007 Adopted CIP of \$3.480 billion is still the largest five-year plan in the City's history. This is a 71% increase from the \$2.034 billion included in the Adopted 2002-2006 CIP. The Adopted 2002-2003 Capital Budget totals \$1.756 billion, an increase of 51% (\$595 million) from the Adopted 2001-2002 Capital Budget, which totaled \$1.161 billion.

The majority of the increase from the prior CIP occurs almost entirely in three programs: Airport, Fire and Police. The Airport program is compared against a prior CIP that contained none of the Master Plan construction or Security projects included in this CIP. Fire and Police program increases represent the inclusion of the Neighborhood Security Act Bond Measure funds approved on March 5, 2002. The size of the CIP also reflects the fact that over the last two years, voters have approved the issuance of a total of \$599 million in General Obligation Bonds to support library projects (\$212 million), parks projects (\$228 million), and public safety projects (\$159 million). These investments reflect voter approval of Measures O and P (library and parks projects) on the November 2000 ballot and Measure O (Neighborhood Security Act Bond Measure) on the March 2002 ballot. The 2003-2007 Adopted CIP includes bond proceeds of \$481 million from these sources, with the remaining proceeds budgeted outside this five-year period.

The current economic downturn has negatively impacted revenue collections in several of the largest sources of funding for the City's CIP, however, resulting in a significant drop in the amount of funding when compared to the most recent years. From the perspective of the current adopted multi-year capital plan, however, this does not have as large an impact as might be expected. The 2003-2007 revenue estimates for the three largest capital revenue categories (Construction and Conveyance Tax, Building and Structure Tax, and Construction Excise Tax) for example show only moderate declines from the estimates included in the 2002-2006 Adopted CIP. When the 2002-2006 CIP was developed, a significant drop-off from the activity levels experienced in recent years was assumed and the revenue estimates were adjusted downward accordingly. The foresight that led to these conservative estimates is enabling the City to withstand the tremendous fall in these revenues without significantly impacting its overall five-year plan.

Operating Budget Impact

A number of the projects in the 2003-2007 Capital Improvement Program will result in significant future additional operating costs in the General Fund. Most of these costs, with the exception of the programs included in the Neighborhood Security Act Bond Measure approved in March 2002,

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Operating Budget Impact (Cont'd.)

were reflected in recent five-year forecasts, including the one released in February 2002. The costs associated with the Neighborhood Security Act Bond Measure displayed in this document for the first time will be added to future General Fund Forecasts.

The preliminary estimates of the ongoing annual impact of capital projects on the General Fund are summarized in the following chart. Costs are shown starting in the year the projects will be finished and for the remainder of the five-year period. (It should be noted that, as in the case in the Forecast, these estimates are provided by the departments and have not yet been fully analyzed by the Budget Office. That analysis most likely will result in different costs when the actual budget for the year in question is formulated.) All projects in the 2002-2003 Capital Budget which result in additional General Fund operating and maintenance costs, as well as costs associated with projects currently under construction and anticipated to be operational in 2002-2003, have been addressed at some level in the Adopted Operating Budget. The costs displayed in the following chart are for projects that come on line in the future years of the CIP.

Projected General Fund Operating and Maintenance Costs

<u>Project Title</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Fire Facilities	\$ 386,000	\$ 2,201,000	\$ 4,195,000	\$ 6,384,000
Library Facilities	1,450,000	2,916,000	3,446,000	5,717,000
Median Island Landscaping	72,000	74,000	74,000	74,000
Parks Facilities	1,547,000	3,242,000	4,390,000	4,619,000
Parks Facilities-Other Agencies	65,000	220,000	245,000	257,000
Police Facilities	6,000	22,000	47,000	549,000
Street Construction		44,000	44,000	44,000
Street Lighting	8,000	62,000	14,000	68,000
Traffic Signals	45,000	86,000	129,000	171,000
<u>Total</u>	<u>\$ 3,579,000</u>	<u>\$ 8,867,000</u>	<u>\$ 12,584,000</u>	<u>\$ 17,883,000</u>

Program Highlights by City Service Area

Each of the City's 16 capital programs is aligned to a particular City Service Area (CSA). The following discussion highlights significant issues and projects by CSA.

Aviation Services

The Aviation Services CSA includes the Airport Capital Program. The Norman Y. Mineta San Jose International Airport's (SJC) Adopted 2003-2007 CIP totals \$1.699 billion and contains 59 capital projects. As a result of the September 2001 terrorist attacks on New York and Washington D.C., SJC's priorities have significantly changed. While the previous CIP focused on approval and design

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Program Highlights by City Service Area (Cont'd.)

Aviation Services (Cont'd.)

of Master Plan projects, the current focus has shifted to the development of an airport that not only meets customer and community needs, but also those of the newly heightened security requirements.

In order to address both the financial needs associated with security compliance and be ready to address new directives, the Adopted CIP establishes a \$450 million reserve to meet security requirements mandated by the Aviation and Transportation Security Act. New mandates include explosive detection screening (EDS) of checked bags, air cargo, and belly freight enplaned at the Airport. In the later years of the CIP, funding is programmed to implement the Centralized Terminal Concept as approved by the City Council on November 13, 2001. It is the Administration's intent to comply fully with the security mandates while still meeting the commitments included in the Airport Traffic Relief Act (ATRA).

Economic and Neighborhood Development

The Economic and Neighborhood Development CSA includes the Developer Assisted Projects Capital Program. This program reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. Several developer reimbursements are programmed into the CIP.

In the Underground Utility Program, current priorities include an agreement with PG & E for the Alma/Almaden Underground Utility District, the design and construction of the McLaughlin Avenue/Senter Road Underground Utility District, and the design of the McKee/Toyon Underground Utility District.

Environmental and Utility Services

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control and Water Utility Capital Programs.

The most prominent projects in the 2003-2007 CIP for the Sanitary Sewer system continue to be those related to the construction and/or rehabilitation of the North San Jose Interceptor System. Other projects funded in this CIP include Sanitary Sewer System Master Planning, Flow Monitoring, Inflow/Infiltration (I&I) Reduction, and Neighborhood Sewer Improvement Programs.

In the Storm Sewer System Program, existing revenues could only support a minimal level of storm drain capital improvement projects. In order to generate sufficient revenues to maintain the overall storm sewer system and to re-establish a modest capital program, the 2002-2003 Adopted Budget includes a multi-year Storm Sewer Use fee increase program of approximately 4 to 4.5% per year for three years. These fee increases generate enough revenue in the fund to provide \$4.1 million over the five-year CIP for capital projects. The program will fund Phase II of the Willow Glen -

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Program Highlights by City Service Area (Cont'd.)

Environmental and Utility Services (Cont'd.)

Guadalupe project (\$2.2 million), and various smaller neighborhood projects including new inlet and lateral construction as well as the reestablishment of flow-lines to provide relief for minor drainage problems (\$1.9 million). All of these projects will incorporate technologies and infrastructure designed to improve the water quality of the storm runoff.

The major areas of investment for the Water Pollution Control Capital Program during the five-year period are plant improvements and modifications, Revised South Bay Action Plan (SBAP) projects, and wet weather reliability improvements.

Capital projects to support the San Jose Municipal Water Utility System include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. One of the major expansion areas for the system is the primarily industrial North Coyote Valley Service Area. The majority of funding for the North Coyote Valley water system is programmed in the 2003-2007 CIP (\$6.7 million).

Public Safety

The Public Safety CSA includes the Fire and Police Capital Programs. On March 5, 2002, 71.7% of the voters in San Jose approved Measure O, the "9-1-1, Fire, Police, Paramedic and Neighborhood Security Act" (Neighborhood Security Act Bond Measure). This bond measure, which authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements, significantly increases the resources available to add, relocate, and renovate public safety facilities. The following projects are funded:

- A Police Substation in the southern part of San José;
- Four Community Policing Centers;
- A Driver Safety Training Facility;
- A remodel of the City's current 9-1-1 Communications Center;
- Addition of four new fire stations;
- Essential facility remodels of 20 fire stations;
- Relocation of fire stations 12, 17, 23 and 25; and
- Expand/rebuild Fire Training Center

The construction of a new Communications Hill Fire Station is also planned during this five-year period. This fire station is tentatively scheduled to open in the summer of 2004.

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Program Highlights by City Service Area (Cont'd.)

Recreation and Cultural Services

The Recreation and Cultural Services CSA includes the Library and the Park and Community Facilities Development Capital Programs.

In November 2000, 75.7% of San Jose voters approved a \$212 million Library bond measure to improve the branch library system over a 10-year period in accordance with the Master Plan. Over the course of the Adopted 2003-2007 CIP, four new branches and six expansion/relocation projects will be completed. Three others will be under construction, and five will be in design.

Other major library projects include the West Valley Branch Library replacement that is expected to be completed in December 2002 and the Joint Library involving the City of San Jose and San Jose State University that is expected to be finished in 2003.

The Park and Community Facilities Development Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San Jose. The program consists of 17 funds including 10 Council District funds, a City-wide fund for city-wide/regional facilities, a Parks Bond Fund, and five special purpose funds.

The Parks Bond Fund provides a significant amount of resources to address capital needs in the City's various park facilities. On November 7, 2000, City voters approved Measure P, a \$228 million general obligation bond for park and recreational facilities improvements. This bond program will provide funding over a 10-year period to renovate 90 neighborhood park play areas, add a total of 164,000 square feet to nine community and senior centers, renovate 28 park restrooms, build two new sports complexes, expand the City's trail system at five locations, enhance four regional park facilities, including improvements and renovations at Happy Hollow Park and Zoo. The 2003-2007 Adopted CIP includes \$182.7 million in bond projects.

The Park and Community Facilities Development Program also continues to focus on proactive development of trails and coordinating regional efforts toward a trail system extending throughout Santa Clara County and the Bay Area. The 2003-2007 Adopted CIP includes \$15.0 million in funding for various trails throughout the City.

Transportation Services

The Transportation Services CSA includes the Parking and Traffic Capital Programs.

The Parking Program's primary capital responsibilities are the development of parking facilities, maintenance and improvements to existing facilities, and the upgrade and replacement to both on-street and off-street equipment. The 2002-2003 Adopted Budget reflects a transfer of \$7.75 million from Parking Fund Reserves to the Redevelopment Agency to help finance the acquisition, design

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Program Highlights by City Service Area (Cont'd.)

Transportation Services (Cont'd.)

and construction of two parking facilities. These facilities are anticipated to be built at the intersection of Notre Dame/St. John Streets and the intersection of Almaden Avenue/Post Street.

In the 2003-2007 CIP, it is assumed that the two New Civic Center Garages will be constructed during this five-year period. These facilities will be financed through the sale of lease revenue bonds and the City's General Fund will cover all debt service as well as operating and maintenance costs.

In the 2003-2007 Traffic Capital Program, the City is dedicating over a quarter of a billion dollars to expand and enhance the transportation system. These resources ensure that the transportation system supports the economic competitiveness of San Jose and provides residents with safe and attractive streets in their neighborhoods. The investments approved for 2003-2007 include funding for the build-out of the major street networks; enhancements to the environment; maintenance of paved roadways; an array of benefits at the neighborhood level including traffic calming, sidewalk, curb, and gutter repair, and bicycle and pedestrian facilities; heightened safety features including new traffic signals and streetlights; and funding to support the City's contribution to regional highway and alternative transit systems.

Street maintenance is an area of particular concern. In the Adopted CIP, \$37.6 million is budgeted for this purpose. This sum is comprised of \$20.1 million for slurry seal and resurfacing, \$8 million for State-funded street maintenance, and \$9.5 million in transfers to the General Fund for maintenance and slurry seal. In addition, the Transportation Department is planning to spend \$21.75 million over the next five-year period from its Operating Budget to support street maintenance. With the Capital and Operating Budget investments combined, the total amount that is allocated to street maintenance over the next five years is \$59.4 million. This funding level represents a drop from the amount allocated in recent years.

A Ten-Year Street Maintenance Recovery Plan that began in 1996-1997 has guided street maintenance expenditures. The City has invested almost \$130 million in street maintenance over the first six years of the Ten-Year Recovery Plan – the largest such investment in its history – drawing on funds from the City, regional, State, and Federal sources. The funding needed in 2002-2003 to maintain the aggressive pace set in the Ten-Year Recovery Plan is \$29.8 million. Due to the expiration of federal transportation funds for maintenance and the front-loading of Measure A/B street maintenance funds from a nine-year program into four years that ends this year, the City will not be able to continue this pace with \$16.0 million budgeted in 2002-2003.

While revenue constraints mean that current funding will fall below the level of the last several years, the Transportation Department staff identified additional funding opportunities to begin addressing this shortfall in coming years. It is anticipated that beginning in 2004-2005, the City will be eligible to receive funds from the Valley Transportation Plan (VTP) 2020 Expenditure Plan of approximately \$6 million annually. The City will also aggressively pursue funding for street

2002-2003 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Program Highlights by City Service Area (Cont'd.)

Transportation Services (Cont'd.)

maintenance purposes as a result of the affirmative outcome on Proposition 42. Beginning in 2008-2009, it is expected that approximately \$9 million annually will be made available through this funding source. These two sources of funding will close a significant portion of the street maintenance funding gap and should be the basis for establishing a new 10-Year Plan to continue maintaining streets in good condition.

Strategic Support

The Strategic Support CSA includes the Civic Center, Municipal Improvements, Service Yards, and Communications Capital Programs.

The new Civic Center will include approximately 530,000 square feet and will be constructed on a 4.9-acre site located on the south side of East Santa Clara Street, between Fourth and Sixth Streets. Major components will include an 18-story office tower, a council chamber wing, an open public plaza with a rotunda, plus a 400-vehicle underground parking garage to serve the visiting public and some staff. The project also includes an off-site 1,250-vehicle employee parking garage located near St. John Street, between Fourth and Fifth Street. The finished Civic Center facility will house approximately 1,950 City staff.

The Civic Center project budget includes \$244 million for the new Civic Center buildings, \$44 million for parking facilities, and \$54.6 million to reimburse the Redevelopment Agency for land acquisition costs.

The Municipal Improvements Program typically provides General Fund allocations to address various City facility needs. In the Adopted CIP, funding was rebudgeted to complete several projects, including the Animal Shelter Facility, Historic Homes Renovations, and Miscellaneous Building Repairs.

In the Service Yards Program, the majority of the resources are being set aside in a reserve to improve the Central Service Yard and expand its existing capacity to accommodate services located in other facilities. A plan for the build-out of this facility will be developed once the Service Yards Study is completed. This study is currently being undertaken to evaluate all of the existing service yards' capacity and utilization.

The Communications CIP's guiding objective is the provision of reliable, necessary public and non-public safety-related communications equipment for all City employees who need communications equipment for their jobs. The majority of the Communications capital budget is dedicated to equipment replacement and upgrade.

2002-2003 ADOPTED BUDGET MESSAGE


CONCLUSION

It is a mark of the City's conservative approach to budgeting that we have so far been able to weather a precipitous drop in revenues with our workforce intact and our commitment to service delivery strong. This 2002-2003 Adopted Budget successfully closed a \$35.9 million dollar shortfall through preemptive action to reduce current year expenditures and the coordinated efforts of every City Department to identify opportunities to be more efficient while reducing costs in 2002-2003.

Having successfully overcome the significant operating fund shortfall projected for 2002-2003, it is imperative that we not lose sight of the significant fiscal challenges ahead. The most notable of these is the continuing State fiscal crisis. While the Governor promised last December not to balance the budget on the backs of local government, and seems to have kept that promise in the recently signed budget, we remain concerned that financial repercussions at the local level are very possible. While City reserves have helped cover our own shortfall, a new takeaway by the State would undoubtedly require real cuts in direct service delivery. In addition, the local economic recovery is expected to continue to lag behind that of the national economy. The length of that delay and the speed of any recovery will together play a critical role in the City's efforts to balance future budgets without significant service cuts.

This Adopted Budget, however, presents a sound fiscal plan that maintains the City's commitment to our residents and to the programs and policies that the City Council has established as organizational priorities. It is a plan that positions the organization to deliver on its significant commitments to the community and continues the sound financial discipline that has allowed us to manage through the current economic downturn.

Balancing this budget in the midst of an economic slowdown presented significant challenges to the organization. I would like to express my appreciation to our dedicated City employees and the City Labor Alliance who partnered with the Administration during difficult decisions. I also want to acknowledge the efforts of the many employees who made a direct contribution to the preparation and production of this document and to express my sincere appreciation for a job well done.


Del D. Borgsdorf
City Manager

General Fund Balancing Strategy Detail

INTRODUCTION

This Attachment is intended to provide a brief, more detailed summary of the revenue and expenditure estimates and key balancing actions provided for in the General Fund in the process of crafting the 2002-2003 Adopted Budget. Specifically, by each stage of the process, both significant revisions to the original March 2002 Forecast Base Budget, as well as the key elements of the strategy to bring the General Fund into balance in the Adopted Budget are described.

In March 2002, the Administration presented to the Council initial projections for 2002-2003 in the *General Fund Five-Year Economic Forecast and Revenue Projections* document. The 2002-2003 "base-case" projections indicated the presence of a shortfall totaling approximately \$36.4 million. This "shortfall" represented the difference or gap between projected 2002-2003 General Fund resources and the expected cost of both providing current services in that year, and providing for Council committed augmentations (such as the costs of staffing and maintaining new facilities).

In addition to the basic projected shortfall in the General Fund of \$36.4 million, it was pointed out at the time that an additional shortfall of about \$10.5 million existed in the four development-related fee programs in the General Fund (Fire, Planning, Building and Code Enforcement, and Public Works Departments).

Subsequent to the release of the March Forecast, a number of changes to both expenditures and revenue estimates were made, which combine to produce a *Revised Forecast* estimate, reflecting the most current

information about economic conditions and cost/activity projections. Discussed in more detail below, the revisions included net reductions in revenue estimates of \$320,000, and a reduction in overall cost projections of \$870,000. The combined impact of these changes produced a very small overall change -- a net downward adjustment of the shortfall estimate of \$550,000, to \$35.9 million. The revenue and expenditure adjustments included in the *Revised Forecast* are described in more detail below.

In addition to needing to develop a strategy to eliminate the basic \$35.9 million shortfall, the strategy needed to also address the additional shortfall (gap) (\$10.5 million) in the four General Fund fee programs. In order to isolate that problem to ensure that solutions were made internal to the fee programs, that gap was discussed separately from the basic General Fund shortfall. In displays in the Forecast, the gap was held separate by understating expenditure requirements in the General Fund by the \$10.5 million, the amount of excess costs (expenditures in excess of expected revenues) in the development-related fee programs.

These fee programs are intended by the City Council to recover 100% of the cost of development review and inspection. While individual fees have been added for new services and some fees have been reduced or eliminated, in general, fee increases have not taken place in these programs in a number of years. The unprecedented level of development activity seen in recent years has generated enough revenue to delay fee increases and masked the slow erosion of the cost recovery basis of the fee programs. That changed suddenly last year. In the aggregate, cost recovery levels dropped below 80% in

General Fund Balancing Strategy Detail (Cont'd.)

INTRODUCTION (CONT'D.)

2001-2002. The March Forecast assumed that each of the fee programs would be required to develop strategies that would completely address their portion of the \$10.5 million shortfall.

The following Table I displays the overall projections for the General Fund as it changed between March and the Proposed Budget.

In the process of formulating the Proposed Budget, resources totaling \$35.59 million and reduced costs totaling \$10.75 million were developed as balancing strategies and added to the Revised Forecast level. That resulted in a balanced 2002-2003 Proposed General Fund Budget of \$733.25 million.

The balancing strategy contained a combination of ongoing and one-time solutions. The overall strategy balanced approximately 62% of the total shortfall (with fee gap) with ongoing solutions totaling \$28.9 million. The remaining ongoing gap is \$17.4 million. If all other assumptions built into our forecast hold true, strategies to balance this amount will still need to be formulated in the coming year(s).

The specific elements of the Administration's strategy are displayed in Table II, and described in the material that follows.

Following the issuance of the Proposed Budget, resources and costs totaling \$100.27 million were added, resulting in a balanced 2002-2003 Adopted Budget totaling \$833.52 million and are described in Table III.

Table I
2002-2003 PROPOSED OPERATING BUDGET
Forecast To Adopted Budget Reconciliation

	Total Revenues	Total Expenditures	(Shortfall)/ Surplus
March Forecast	\$ 697.98	\$ 734.38	(\$ 36.40)
Forecast Revisions	(0.32)	(0.87)	0.55
Revised Forecast (no fee impact)	697.66	733.51	(35.85)
Development Fee Program Impact	0.00	10.49	10.49
Revised Forecast (with fee impact)	697.66	744.00	(46.34)
Proposed Revisions	35.59	(10.75)	46.34
2002-2003 Proposed Budget	\$ 733.25	\$ 733.25	\$ 0
Adopted Revisions	100.27	100.27	0
2002-2003 Adopted Budget	\$ 833.52	\$ 833.52	\$ 0

General Fund Balancing Strategy Detail (Cont'd.)

REVISED FORECAST BASE BUDGET

As discussed above, following the issuance of the initial March Forecast, detailed analysis of the status of City revenues and expenditures continued. Based on this review, a series of changes to the Base Budget estimates

presented in March were incorporated into a new Revised Forecast. This new "Forecast Base Budget (no fee impact)" reflected a shortfall of funds of \$35.9 million, which was down only slightly (\$0.55 million) from the March shortfall figure.

Revisions to the revenue estimates incorporated into the Revised Forecast included the following:

<u>Revenues</u>	<u>Revision</u>
Property Tax	\$ 675,000
Sales Tax	(1,363,462)
Transient Occupancy Tax	300,000
Utility Tax	(521,000)
Licenses & Permits	115,800
Fines, Forfeitures, & Penalties	391,000
Revenue from Local Agencies	(326,840)
Revenue from State of California	(135,000)
Revenue from the Federal Government	200,000
Departmental Charges	(965,200)
Other Revenue	465,000
Transfers and Reimbursements	<u>824,990</u>
Net Change in Revenues	\$ (319,712)

Expenditure adjustments made from the March Forecast base included:

<u>Expenditures</u>	<u>Revision</u>
Reimbursable Mid-Year Actions (Metcalf Agreement)	\$ 750,000
Elimination of Non-Personal CPI Increase	(360,000)
Elimination of Community Based Organization COLAs	(370,000)
Vacancy Factor Adjustments	(380,000)
Miscellaneous Revisions	<u>(510,000)</u>
Net Change in Expenditures	\$ 870,000

General Fund Balancing Strategy Detail (Cont'd.)

REVISED FORECAST BASE BUDGET (CONT'D.)

The revenue revisions reflected more recent information. The largest change, a 1% decrease in the growth estimate for Sales Tax (from 3.5% to 2.5%), represented a slightly more pessimistic view of the length of time the local recession will last. It is increasingly apparent that the local economy has showed little to no sign of improvement, and that renewed growth of any significance is unlikely until late next fiscal year, at best. The upward adjustment in Property Tax receipts reflected more recent information from the County regarding expected Secured Property Tax Roll growth. The other adjustments are relatively minor changes, reflecting changing circumstances with those particular revenue sources.

All base expenditure estimates were also carefully re-examined during the time between the March Forecast and the issuance of the Proposed Budget. Actions taken by Council during the Mid-Year Budget Review resulted in increased expenditures of \$750,000, all of which were reimbursable from the recent agreement regarding the Metcalf Energy Center.

Offsetting those increases were downward adjustments to expenditure estimates that reflected the elimination of the inflationary adjustment to non-personal/equipment (\$.36 million) and community-based organizations (\$.37 million) that had been previously assumed in the March Forecast. The condition of the General Fund has made clear that such cost of living allowances were not affordable in the upcoming fiscal year.

A further review was also performed of departmental attrition rates. This resulted in the ability to reduce expenditure totals slightly in the aggregate, in the amount of \$.38 million. Revisions to the Public Works fee program also resulted in savings to the General Fund of \$380,000.

PROPOSED BUDGET BALANCING STRATEGY

Specific Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Operating Budget Message. The details of the specific elements of that Message, along with other Council Referrals, are provided in Attachment B. Attachment C contains information regarding the status of City Auditor recommendations with funding impact.

As summarized in the following Table II and discussed below, the budget balancing strategy developed by the Administration resulted in a balanced General Fund Proposed Budget totaling \$733.3 million. Following is a brief discussion of the key elements of the budget balancing actions that were included in the Proposed Budget. Descriptions of most of the elements of the strategy are spelled out in much greater detail elsewhere in this document, or in the Proposed Fees and Charges document that was published in May.

Resource Changes

A total of \$35.6 million in additional resources with an ongoing value of \$11.5 million, were proposed to be available as part of the balancing strategy. The major elements of this increase are described below.

General Fund Balancing Strategy Detail (Cont'd.)

PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

Available Fund Balance

The Proposed Budget balancing strategy included utilizing an increase in unrestricted 2001-2002 Ending/2002-2003 Beginning Fund Balance funds in the amount of \$22.95 million. This increase included several different elements.

Included first was an upward adjustment in the estimate for 2001-2002 fiscal year expenditure savings (\$3.6 million) resulting from cost/position management plans (\$2.063 million) and the carryover and use of the following 2001-2002 Earmarked Reserves: Enhanced Parks Maintenance; (\$112,000); Fire Courier Service (\$115,000); and Human Resources Improvements (\$310,000).

Also included was the use of several reserves previously set aside: the first, as directed in the Mayor's June 2001 Budget Message, to address the projected 2002-2003 shortfall (\$9.98 million); and three others for Development-Related Fee issues (\$3.869 million). This included use of the following: Fire Fee Reserve (\$256,988); Building Fee Reserve (\$2.83 million); and the Planning Fee Reserve (\$783,793 million).

Finally, included was the use of \$5.5 million in funds received during the last year from the County of Santa Clara. The City and the County reached an agreement during the spring of 2001 to settle various disputes. As a result, one-time settlement funds of \$5.5 million received from the County were available for use in 2002-2003.

Additional Development-Related Fee Revenue

A number of fee increases and new fees were proposed to restore cost-recovery levels to 100% in 2002-2003 in the four General Fund development fee programs (Fire, Planning, Building and Code Enforcement, and Public Works Departments). Approval of these proposals resulted in additional revenue totaling approximately \$3.8 million.

Commercial Solid Waste Franchise Fee and Disposal Facility Tax

Through a combination of approved actions, the Commercial Solid Waste Franchise Fee (CSW) and Disposal Facility Tax (DFT) revenue will increase by \$519,000 and \$1.8 million, respectively.

The CSW revenue increase resulted from a redistribution of Recycle Plus fee loads split, at the current time, in an inequitable manner between CSW and AB 939 fees. Fee increases in the Residential Recycle Plus program will bring the commercial and residential programs into cost recovery status in a three-year phase-in, increasing the portion of the CSW portion of the fee that goes to the General Fund. This redistribution will generate an estimated annual increase of \$1.3 million in additional revenue to the General Fund after three years. In 2002-2003, the first year of the three-year phase-in, an additional \$519,000 is expected.

The DFT increase will result from an approved removal of a current exemption from taxation of waste materials currently classified as Alternate Daily Cover. This material will then be subject to the same \$13 per ton tax that all other material already is.

General Fund Balancing Strategy Detail

PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

Commercial Solid Waste Franchise Fee and Disposal Facility Tax (Cont'd.)

This change is estimated to generate approximately \$1.8 million in additional DFT General Fund revenue in 2002-2003.

Cardroom Tax Revenue

In accordance with Council direction to phase out the City's ongoing reliance on cardroom revenue over 6 years, an increasing portion of this revenue (\$3.75 million this year) is allocated each year to meet one-time needs. In 2002-2003, at the half way point of this phase-out, \$3.75 million from this tax continues to be utilized as an ongoing General Fund revenue source.

Augmentation-Related Revenue and Other Revenue Changes

Revenue of approximately \$2.5 million from various local agencies, as well as transfers and reimbursements from other funds and

agencies were reflected in this category. Augmentation-related revenue included overhead changes and reimbursement from the Redevelopment Agency for several Strong Neighborhoods Initiative efforts.

Expenditure Changes

Actions resulting in a net reduction of \$10.75 million, with an ongoing value of \$17.4 million were proposed as part of the balancing strategy. Included were several major augmentations, including the Mayor's Message directed creation of a \$6.0 million Neighborhood Investment Fund, and a \$500,000 Security Improvement Reserve, as well as the set aside of \$900,000 for furniture, fixtures and equipment for the new Blossom Hill Library.

The remaining elements of the cost reduction strategy are listed by City Service Area (CSA) in Table II below, and described in detail in the CSA and departmental sections of this document.

Table II
2002-2003 PROPOSED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy

	2002-2003	Ongoing
Revised Forecast	(\$ 35,852)	(\$ 35,852)
Development Fee Program Impact	(10,491)	(10,491)
Revised Forecast	(\$ 46,343)	(\$ 46,343)
Balancing Strategy		
Additional Resources		
Available Fund Balance		
Additional Savings/Use of Reserves	\$ 3,600	\$ 0
Development-Related (Use of Reserves)	3,869	0
Reserve for Future Deficit (2002-2003)	9,983	0
County Settlement Funds	5,500	0
Total Available Fund Balance Increase	\$ 22,952	\$ 0
Development-Related Fee Revenue	3,836	6,322
Commercial Solid Waste Franchise Fee	519	519
Disposal Facility Tax	1,800	1,800
Cardroom Revenue	3,750	0
Augmentation-Related Revenue	1,294	1,244
Other Revenue Changes	1,442	1,650
Subtotal Additional Resources	\$ 35,593	\$ 11,535
Proposed Budget Funding Changes by City Service Area		
Aviation	\$ 0	\$ 0
Environmental & Utility Services	(517)	(534)
Economic & Neighborhood Development		
Non-Development Related	(184)	(706)
Development Related	(4,349)	(4,358)
Public Safety	(1,465)	(1,397)
Recreation & Cultural Services	(523)	(998)
Transportation	870	(392)
Strategic Support:		
City Facilities & Equipment	(3,171)	(3,171)
Finance & Technology	(1,478)	(1,478)
Employee Services	(933)	(933)
Council Appointees	(1,900)	(896)
Reserves:		
Elimination of Reserves	(4,500)	(2,535)
Neighborhood Investment Fund	6,000	0
Security Improvements Reserve	500	0
Blossom Hill Branch Library Furniture, Fixtures & Equip.	900	0
Total Funding Changes by City Service Area	(\$ 10,750)	(\$ 17,398)
Total Balancing Strategy	(\$ 46,343)	(\$ 28,933)
Remaining Balance	\$ 0	(\$ 17,410)

General Fund Balancing Strategy Detail (Cont'd.)

ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2002-2003 budget process commenced following the issuance of the City Manager's Proposed Budget document and consisted of the following major steps: review by the Mayor City Council in Committee of the Whole sessions of the Proposed Budget; issuance by Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addendums, or MBA's); issuance by the Mayor in June of his Final Budget Modifications memorandum; and approval by the Council of a final Adopted Budget. A significant number of revisions to the Proposed Budget occurred in this final phase of the process and are described in the following section.

Summarized in the following table by general category (Table III) are the additional funding requirements introduced by Manager's Budget Addendum's or the Mayor's Final Budget Modifications memorandum. (Full text is included as an Appendix to this document.) Those additional requirements totaled \$100.3 million. By far the largest component of the increase was rebudgets of 2001-2002 funds (\$98.4 million) to be carried forward for the completion of various projects. Detailed descriptions of the changes and investments that were approved are provided in the specific department sections of this document.

Savings to Support 2001-2002 Projects

The unrestricted portion of the 2001-2002 Ending/2002-2003 Beginning Fund Balance estimate was adjusted upward from earlier estimates by an additional \$98.4 million to

reflect the 2001-2002 funding which is estimated to be available to be carried over to 2002-2003.

Augmentation-Related Revenue

Reimbursement from the State of California was reflected along with a corresponding budget augmentation for the San Jose LEARNS program.

Other Revenue Changes

Reimbursements from various local and federal grant programs, which were awarded but not received in 2001-2002, were reflected along with corresponding budget changes. This included reimbursement for various public safety and healthy neighborhood activities.

Reserve for Neighborhood Investment Fund

Reflects the elimination/utilization of the Reserve for Neighborhood Investment Fund (\$6.0 million). This reserve was established in the Proposed Budget, per Council direction, to be used during this phase of the budget process to support a wide array of capital investments throughout the community to improve safety or quality of life, or to create a better sense of pride in neighborhood communities.

Expenditure Changes

Actions resulting in a net addition of \$100.3 million, with an ongoing value of \$1.6 million were approved as part of the adopted phase. The following highlights some of the more significant General Fund augmentations that were approved in the final phase of the process and have been grouped by City Service Area.

General Fund Balancing Strategy Detail

ADOPTED BUDGET BALANCING STRATEGY (CONT'D.)

Expenditure Changes (Cont'd.)

Economic and Neighborhood Development (\$.75 million) – Funding for improving two neighborhoods, Richmond/Menker (\$65,000) and Palm Haven (\$10,000).

Public Safety (\$.89 million) – Funding for expanding Special Operations training efforts (\$60,000) and public education for the Medical Assistance Treating Toddlers program (\$2,000) in the Fire Department and purchasing School Crossing Guard Uniforms (\$27,000).

Recreation and Cultural Services (\$5.56 million) – Significant funding for various capital improvements to neighborhood parks, community and school facilities (\$3,856,689). Major projects include Almaden Winery Center Conversion (\$1,246,000), Computer Facility at Southside Community and Senior Center (\$714,547), Tamien Station Skateboard Park (\$630,000), Community Center at former Fire Station #27 (\$461,068) and Carrabelle Park Play Area Improvements (\$275,000). In addition, funding was also approved for continuation of the San Jose LEARNS After School Program (\$1,585,150), a Senior Citizen Care Advocate in the Office on Aging (\$77,676), expansion of the Senior Internet

Days and Workshop Program (\$11,000), Camden Youth Center Computer Program (\$12,500) and Young People's Theater (\$13,000).

Transportation (\$1.79 million) – Significant funding for various capital improvements to City Streets. Major projects include Redmond Avenue Median Island Landscaping (\$350,000), Streetlighting Improvements in schools (\$110,102) and other streets (\$298,213) in Council District 5, construction of a traffic signal at Senter Road and Wool Creek Drive (\$275,000), construction of sidewalks around the corner of San Tomas Aquino Road and Payne Avenue (\$215,000), and Lincoln Avenue Crosswalk Uplights (\$180,000).

Strategic Support (\$.07 million) -- Funding for a matching grant program for United Way (\$250,000) and transition costs for two new Council members (\$30,000). Offsetting these increases is a reduction to the operating hours of the Customer Service Call Center (-\$210,000).

Rebudgeted 2001-2002 Projects (\$98.7 million) -- Funding for completion of programs and projects authorized in the prior year. The largest majority of the rebudgets occurred in three areas: Capital (\$24.20 million), Earmarked Reserves (\$53.69 million), and City-Wide (\$14.49 million).

Table III
2002-2003 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy

Balancing Strategy	2002-2003	Ongoing
Fund Balance Increases		
Savings to Support 2001-2002 Projects	\$ 98,438	\$ 0
Subtotal Fund Balance Increases	\$ 98,438	\$ 0
Augmentation-Related Revenue	1585	1,585
Other Revenue Changes	245	0
Subtotal Additional Resources	\$ 100,268	1,585
Use of Earmarked Reserves		
Reserve for Neighborhood Investment Fund	5,996	0
Subtotal Use of Reserve	\$ 5,996	\$ 0
Subtotal Additional Resources	\$ 106,264	\$ 1,585
Adopted Budget Funding Changes by City Service Area		
Economic & Neighborhood Development	\$ 75	\$ 0
Public Safety	89	89
Recreation & Cultural Services	5,556	1,770
Transportation	1,791	0
Strategic Support:		
Other	280	0
Council Appointees	(210)	(274)
Total Funding Changes by City Service Area	\$ 7,581	\$ 1,585
Rebudgeted 2001-2002 Projects	98,683	0
Total Funding Changes by City Service Area	\$ 106,264	\$ 1,585
Remaining Balance	\$ 0	\$ 0

Status of Mayor and City Council Referrals 2002-2003 Adopted Budget

Referral	Resolution
Security and Safety Reserve	A \$500,000 Security Improvements reserve was established in the Adopted Budget.
Airport Noise Mitigation	Allocation of \$29.7 million in Noise Mitigation activities was included in the Adopted Capital Budget and \$279,000 was included in the Adopted Operating Budget.
Airport Low or No Emission Shuttle Buses/Automated People Mover	Airport has undertaken a program to replace its current shuttle fleet with compressed natural gas (CNG) buses in order to improve air quality. Shuttle fleet costs for CNG vehicles will be approximately \$615,000 (lease and fuel). The Automated People Mover Transit Connection to lightrail is funded in 2002-2003, with \$1 million proposed to continue an environment study and \$10.0 million in the 2003-2004 CIP for future project planning.
Airport Security/Passenger Convenience, Government Reimbursement	A \$4.6 million Security Reserve was established in the Adopted Budget for the Airport Department.
Eliminate/Defund Vacant Airport Operations Positions	After reviewing vacant positions within the Airport Department, over \$6.0 million was eliminated in both personal and non-personal/equipment costs.
Airport as Federal Test Facility	A \$450.0 million reserve was established in the Adopted Capital Budget for Airport Security requirements.
Identify SNI Areas for Redevelopment	A report will be issued after possible Strong Neighborhoods Initiative areas have been identified for potential redevelopment.
Work with City's Child Care Commission	A report will be issued after an examination of the City's Council Policy on the Guidelines for Child Day Care and examination of the 2020 General Plan are conducted.

Status of Mayor and City Council Referrals

2002-2003 Adopted Budget

Referral	Resolution
Maintain Ombudsman Planner for Non-Profits	The Adopted Budget continues to fund an Ombudsman Planner for Non-Profit organizations.
Mayor's Homeless and Housing Fund	A General Fund allocation of \$300,000 was included in the Adopted Budget for the Mayor's Homeless and Housing Fund.
Improve Housing Inspections (Multi-Family)	A shortfall in the existing Multiple Housing Inspection program necessitates a two year phase-in of a 5% fee increase per year to maintain existing service levels. Any improvements in performance would require a larger fee increase, which is not considered advisable this fiscal year.
Housing Production-Establish Annual Target	A report will be issued regarding establishing an annual target for the level of affordable housing production for future years.
Anti-Litter Campaign	The Adopted Budget included an allocation of \$450,000 from the Redevelopment Agency for an expanded neighborhood clean-up program and the Anti-Litter Campaign.
Phase-In Convention Center Electrical Project	The Adopted Budget continued to assume the phase in of the electrical project at the Convention Center. As part of the phase-in, a total of 8.5 positions in the Convention, Arts & Entertainment Department, was recommended to be held vacant until convention center revenues and occupancy levels recover from the economic recession.
Neighborhood Investment Fund	Funding of \$6.0 million was included in the Proposed Budget for allocation later in the budget process. This funding was utilized for specific purposes per direction in the Mayor's Budget Modification Memorandum.

Status of Mayor and City Council Referrals 2002-2003 Adopted Budget

Referral	Resolution
Compliance with State Law and Water Pollution Control Discharge Permit Requirements	The Adopted Budget included the addition of a Supervising Environmental Services Specialist position to add technical and specialized support, supervision and operation and contract oversight for projects related to watershed protection and the maintenance of NPDES permit requirements.
Recycle Plus Program Transition	No additional funding was required. Sufficient funding was already allocated to assure that the transition would proceed smoothly.
Street Sweeping Signage and Outreach	Additional allocation of \$200,000 was included in the Adopted Budget for street sweeping signage.
Uncertainty of State Funding for Public Area Recycling	One-time funding of \$260,000 was allocated in the Adopted Budget for one-time use to continue making recycling available in public parks and gathering spaces.
Green Building Practices and City Building	Funding of \$150,000 for this program was included in the Adopted Capital Budget.
Measure O (Neighborhood Security Act Bond Measure) Implementation	Measure O projects were included in the Adopted CIP. Additional staff resources were allocated (in Public Works, Fire and Police Departments) to oversee program implementation. These actions are intended to ensure that this new capital program is implemented on time and on budget.
San Jose <i>Prepared</i> Neighborhood Involvement	A plan to provide more effective and extensive outreach, public education and training to help residents be prepared for a disaster has been formulated.
Equipment Adds Should Focus on Better Protection for Public Safety Personnel	Funding for enhanced Public Safety equipment was allocated in the Adopted Capital Budget.
Safe Schools Campus Initiative-Inform Schools	City staff are preparing efforts to inform school officials of the services available through the Safe Schools Campus Initiative.

Status of Mayor and City Council Referrals 2002-2003 Adopted Budget

Referral	Resolution
Evaluate Transfer of Crossing Guard Program	A report will be issued during the year evaluating the appropriateness of the transfer of the crossing guard program to the Department of Transportation.
Proactive Safety Personnel Hiring	An allocation of \$300,000 for a special summer Fire Academy designed especially to acquire necessary additional paramedics is included in the Adopted Budget.
Digital Divide Blueprint	Funding for an additional Analyst position was included in the Parks, Recreation and Neighborhood Services Department to oversee projects and programs resulting from the Digital Divide Blueprint.
Smart Start Center Program Partners	Funding award was granted in 2001-2002 to support an additional 350 Smart Start spaces.
Mayor's Child Care Initiative/Office of Child Care Structure	A report will be issued, which will address the childcare crisis and reexamine the Office of Child Care.
After-School Programs Inventory/Analysis	An analysis will be conducted on the City's current after-school programs and a report will be issued.
Library Service Innovations/Expanding and Adjusting Library Hours	Opportunities to expand and adjust hours at Branch Libraries are currently being explored. In 2002-2003, after surveying the community, a limited number of branches will be piloting adjusted hours by opening and closing later than other branches several days per week. Depending on the response from patrons, this service may expand to adjusting hours at even more branches in future years.
Bookmobile/Disability Outreach Programs	Funding is maintained for these programs in the Adopted Budget.

Status of Mayor and City Council Referrals 2002-2003 Adopted Budget

Referral	Resolution
Parks Construction & Conveyance Revenues for Capital Improvement Program Implementation	Construction & Conveyance funding was maintained in the Adopted Capital Budget, rather than utilizing partial funding for parks maintenance.
Almaden Lake Federal Grants	The availability of Federal grants for the Almaden Lake is currently being explored.
Arts Venture Fund Continuation	An allocation of \$250,000 was allocated for the continuation of the Arts Venture Fund.
Make Government Services More Accessible Online	Opportunities to make government services readily accessible online are currently being explored. There are several services being evaluated including allowing customers to make online payments and allowing citizens to make service requests online. A report will be issued at a later date.
Multi-Year Phase-Out of Card Club Revenue Support for the General Fund	In a continuation of the directed phase-out, a total of \$3.75 million of the Card Club Revenue is now restricted to use for one-time uses to reduce the ongoing financial dependence on gambling revenues.
Caution Regarding Information Technology Maintenance Reductions	After careful review of the Information Technology Maintenance staff, only \$155,000 in reductions is included in the Adopted Budget. The reductions have been carefully targeted to limit the impact and will ensure sufficient levels for maintenance support and security for Information Technology systems and services.
Transfer Budgets to Direct Service Departments for Savings	Included in the Adopted Budget is the transfer of telephone and cell phone budgets from the Information Technology Department to the direct service departments. A 5% reduction (totaling \$121,000) in each department's base budget as well as the direct transfer of these bills to the departments was approved. This transfer of responsibility should encourage effective

Status of Mayor and City Council Referrals

2002-2003 Adopted Budget

Referral	Resolution
Transfer Budgets to Direct Service Department for Savings (Cont'd.)	demand management, and provide more incentives for cost savings.
Re-Engineer Processes and Re-Deploy	Reorganization and redeployment opportunities were explored city-wide. As an example, a review was performed on the Environmental Services Department Lab Management Plan, which resulted in the elimination of eight and the redeployment of five positions. The merger of neighborhood and regional parks maintenance that occurred last year in the Parks, Recreation and Neighborhood Services Department also allowed overall maintenance funding to be reduced. Finally, Fleet Management is developing utilization criteria, which will eventually downsize the size of the general fleet and our maintenance budget.
Review Encumbrance Policies	The Adopted Budget anticipates an additional \$2.9 million in fund balance would be generated in 2001-2002, for use in 2002-2003, through the liquidation of carry-over encumbrances.
Review Insurance Coverages	After reviewing insurance coverages, a savings of \$400,000 was generated through the elimination of excess worker's compensation insurance and through prudent adjustment of various other deductibles.
Avoid Training Decreases for Safety and Risk	Training reductions, where recommended, have been carefully targeted to avoid creating a reduced risk exposure to employee health and safety.
Improve Loan Management Services	Funding of \$276,000 was included in the Adopted Budget to help improve loan management services to ensure housing projects will continue on time.

**Status of Mayor and City Council Referrals
2002-2003 Adopted Budget**

Referral	Resolution
Housing Department Direct Charges	A total of \$76,000 was reallocated to the Low and Moderate Income Housing Fund to reflect the actual level of housing debt and loan management services provided by positions in the Finance Department.
Traffic Calming-Aggressive Implementation	The addition of a Civil Engineer (\$75,000) was included in the Adopted Operating Budget. A total of \$1.5 million in Traffic Capital funding was also included in the Adopted Capital Budget for 2002-2003 with an additional \$500,000 programmed in 2003-2004.
Traffic Citations-Avoid Adding Too Many Positions	The Adopted Budget includes the addition of four parking enforcement officers. The officers were added to meet the projected increased need for enforcement resulting from the second monthly street sweep, additional street miles that will restrict parking during street sweeping times, and two new Residential Permit Parking zones. The new staff is focused on promoting compliance with parking regulations as opposed to aggressively ticketing non-compliant parkers.

Status of City Auditor Recommendations With Funding Impact 2002-2003 Adopted Budget

Department	Item	Status	Remarks
Fire	Hazardous Materials Storage Permit Fees (93-04, #1)	Not Proposed	Reviewed, but not included due to detrimental impact on potential fee payers
Finance	Business Tax Collection Process – Review Need for Additional Staff and Non-Personal Funding (96-06, #4)	Funding Not Included	No additional funding resources requested by department in light of financial situation.
Finance/ESD	Consider combining sewer and storm drain fees with Recycle Plus billings (97-01, #4)	Not Proposed	Billing System replacement project under way. Feasibility of using system to bill for storm drain and sewer fees will be reviewed during 18 month implementation phase.
Finance/ESD	Recommendation to add a data-base administrator as part of the UBS Billing System Replacement Project (97-01, #19)	Funding Not Included	Project implementation will take approximately 18 months. Request to add this position will be considered as part of the 2003-2004 budget process.
Public Works	Develop and propose alternate methods to budget and account for DPW costs charged to capital projects (97-05, #2)	Under Review	New DPW Director will be working with the Budget Office in the coming year to develop alternative strategies.
Police	Investigate the feasibility of using State or Federal grant funds to procure police staffing and deployment software (00-01, #3)	Funded	State Grant funds in the amount of \$70,000 allocated.
Finance/Information Technology	Master Vender File Improvements (00-02, #3)	Funding Not Included	No additional funding resources requested by department in light of financial situation.

Status of City Auditor Recommendations With Funding Impact 2002-2003 Adopted Budget

Department	Item	Status	Remarks
Public Works	Undertake various improvements to procedures, policies, training and performance criteria in the Real Estate Division involving the Property Appraisal Process. Consider addition of Analyst Position to implement (01-01, #9, #13)	Funding Not Included	No additional funding resources requested by department in light of financial situation.
Fire	Implement a proactive sick leave reduction program with potential reduction in City costs (01-02, #8)	Under Review	Fire Department Administration studying options.
Fire	Evaluate feasibility of implementing comprehensive Wellness-Fitness Program for SJFD should the initiative appear cost beneficial	Funding Not Included	No additional funding resources requested by department in light of financial situation.
ESD	Make appropriate changes in Source Control Program support services, such as Laboratory services, to reflect the Source Control Program's revised workload (011-03, #11)	Implemented	Net reductions in Lab Services costs of \$788,000, the deletion of 8 positions, and the redeployment of 5 other positions included in the Adopted Operating Budget.

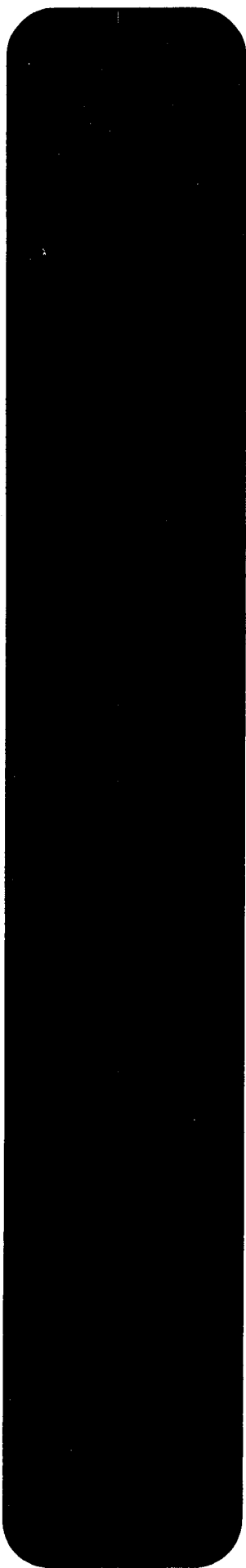
Strong Neighborhoods Initiative Funding Allocations

Investment priorities have been identified for 11 neighborhoods through the Strong Neighborhoods Initiative (SNI) and nine others have plans in progress. In the coming year, these neighborhoods will be transitioning from planning to implementation. During implementation, concrete action plans will be developed to work towards the desired objectives for "top ten" priorities identified through the neighborhood planning process. Over the next three to five years, approximately \$129 million is recommended for investment in SNI neighborhoods. These investments will be made primarily through the use of Redevelopment funds and are reflected in the 2002-2003 Adopted Budget for the Redevelopment Agency (RDA). The City's Adopted Operating and Capital Budgets includes a small portion of the funding through the use of Parks and Library Bond Funds, grants and other operating and capital expenditures. Of the total investment amount, approximately \$55 million has been set aside in a Strong Neighborhoods Initiative Reserve by the RDA. This reserve would be used to implement "top ten" priorities identified in the SNI area plans yet to be approved by the City Council as well as other SNI-needs that may be identified as the City proceeds through the implementation phase. A reserve of this magnitude is necessary to not only ensure adequate resources for the remaining SNI areas, but to leverage initial investments that may require additional resources to achieve the desired results in all neighborhoods.

The majority of priorities identified through the neighborhood planning process are for capital projects and/or the expansion of City services in order to better meet the needs of the neighborhoods. Examples include streetscapes, sidewalks, parks, libraries, recreation programming, childcare, community centers, housing, code enforcement, neighborhood safety and traffic. While "top ten" priorities were identified through the neighborhood planning process, it was through the City Service Area budgeting process that investment proposals were primarily developed. In this way, the Strong Neighborhoods Initiative investments can no longer be viewed as a separate "program", but rather a fundamental change in the way the City/Agency allocates its resources to better meet the needs of the neighborhoods. The following chart summarizes the investments by City Service Area:

STRONG NEIGHBORHOODS INITIATIVE FUNDING BY CITY SERVICE AREA

Neighborhood Investments by City Service Area	2002-06 Investment	Totals
Economic & Neighborhood Development	\$ 6,576,100	
Transportation	22,416,500	
Recreation & Cultural Services	24,682,585	
Public Safety	130,000	
TOTAL		\$ 53,805,185
General SNI Investments by City Service Area	2002-06 Investment	
Economic & Neighborhood Development		
-Attractive Neighborhoods	\$ 5,120,000	
-Outreach and Training	1,155,000	
-Housing Rehabilitation	12,000,000	
TOTAL		\$ 18,275,000
Funds Yet to be Assigned by City Service Area	2002-06 Investment	
-Matching Grants	\$ 2,000,000	
-SNI Reserve	54,940,073	
TOTAL		\$ 56,940,073
GRAND TOTAL		\$ 129,020,258



2002-2003

OPERATING BUDGET



**COMMUNITY
PROFILE**

SAN JOSE AT A GLANCE

Strategic Location

Situated between the Diablo and Santa Cruz mountain ranges, the City of San Jose encompasses 177 square miles at the southern tip of San Francisco Bay. San Jose's central location between San Francisco to the north and Monterey/Carmel to the south makes the Capital of Silicon Valley a gateway to adventures throughout California.

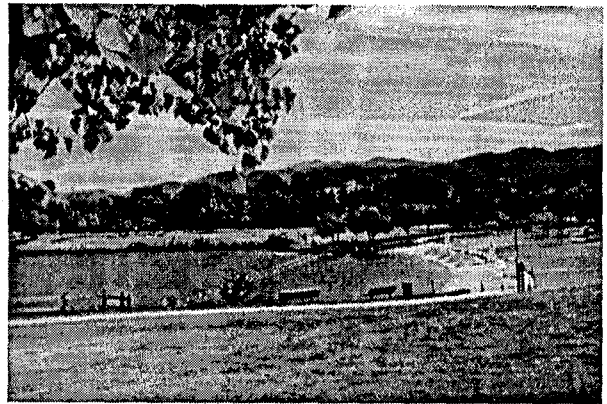
With a population of 918,000, San Jose is the 11th largest city in the nation, larger than San Francisco, Boston, Washington D.C., Seattle, Miami, Denver, and New Orleans. More than 1.6 million people reside in Santa Clara County, of which San Jose is the county seat.

Quality of Life

San Jose's quality of life is unsurpassed. With 300 days of sunshine a year and an annual average temperature of 70 degrees, those living and working in San Jose can enjoy the City's many attractions, wineries, cultural and performing arts, sports and recreation opportunities and year-round festivals and celebrations. Eight out of ten residents rated the quality of life in the City as either "excellent" or "good" in the City's most recent Community Survey. San Jose continues to be rated one of the safest large cities in America. As a place to live and do business, San Jose has received accolades from Fortune Magazine, California Business, Hispanic Inc., Money, Outlook and other national media.

Diversity

Diversity is a hallmark of San Jose. San Jose is a City proud of the cultural and ethnic diversity of its population and workforce, and the rich cultural identity of its many neighborhoods.



City residents speak more than 46 different languages. Japan Town is a popular tourist stop and a cornerstone neighborhood full of tradition. Biblioteca LatinoAmericana, one of the City's innovative library branches, boasts one of the largest collections of Spanish language materials in northern California. The City sponsors many cultural festivals and numerous ethnic chambers of commerce are active in the community. According to the 2000 demographics, residents of the City include 36% White, 30.2% Hispanic, 26.9% Asian/Pacific Islander, 3.3% African American, and 3.6% other.

SAN JOSE AT A GLANCE

Education

Thirty-three public school districts and an estimated 350 private and parochial schools provide families with a range of educational choices. Innovative programs in local school districts include a nationally acclaimed performing arts magnet, and concentrations in aerospace, international studies, math and science, radio and television and more.

Higher education facilities in and around San Jose are superior. San Jose State University is California's oldest institute of higher public education, founded in 1857. It offers strong programs in business, information technology, journalism and mass communications and engineering, with SJSU turning out twice as many engineers as any nearby universities.

Area colleges include Santa Clara University, the State's oldest institute of higher private

education, founded in 1851. Other excellent nearby universities include Stanford University, University of California at San Francisco, University of California at Berkeley, and University of California at Santa Cruz.

Seven community colleges serve the County of Santa Clara, offering a variety of two-year programs and work-ready certificate programs. Community-based programs like Metropolitan Adult Education and the Center for Employment Training fill the need for basic skills and job training. Thirty-four percent of San Jose Metro Area's workforce has a college degree, the second highest percentage in the nation.

Economic Diversity

Perhaps more important than rankings and statistics, the term "Capital of Silicon Valley" describes not only a City and geographic region, but a culture, an entrepreneurial energy, a spirit of innovation, and a symbol of opportunity and economic vitality. While San Jose and Silicon Valley are largely associated with the technology industry, the City's business profile is diverse and healthy. Commercial, retail, industrial, professional and service businesses all thrive in San Jose.

International

On the international front, San Jose has attracted significant foreign investments, particularly from information technology companies. San Jose ranks second among United States cities in exports with nearly \$30 billion in annual foreign shipments. The San Jose Metropolitan area represents one-quarter of California's total exports, yet comprises only 5% of the State's population.

The area is rich with Research and Development resources and San Jose area companies typically receive about one-third of the nation's venture capital investments.



SAN JOSE AT A GLANCE

Tourism

Residents and visitors enjoy the City's many attractions year-round: museums, parks, wineries, cultural and performing arts, sports, recreation, multicultural festivals, theme parks, shopping and, of course, great hotels and restaurants. Attractions include the Tech Museum of Innovation, Raging Waters, Happy Hollow Park and Zoo, the Japanese Friendship Garden, Alum Rock Park, and the intriguing Winchester Mystery House.

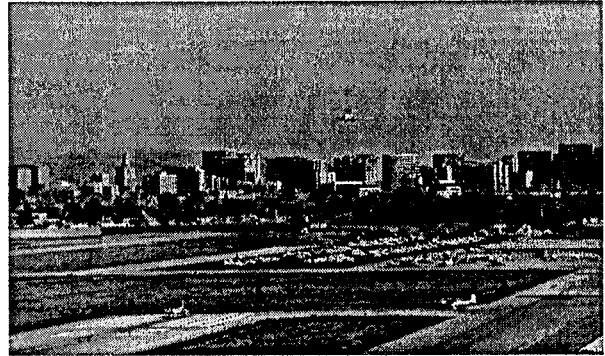
Sports

Several professional sports teams call San Jose home: the Sharks, NHL; the Sabercats, Professional Arena Football; the Giants, Minor League Baseball; the Earthquakes, champions of Major League Soccer; and the CyberRays, champions of the Women's United Soccer Association. There is also a state-of-the-art community ice center, golf courses, and parklands, including a beautiful three-mile riverwalk spanning from downtown to the airport.

Transportation

San Jose/Silicon Valley has:

- The Norman Y. Mineta San Jose International Airport, located within minutes of downtown and serving over 13 million passengers annually, with 13 major commercial carriers operating same plane service to 36 U.S. cities and international destinations.
- A fleet of 509 buses serving over 47 million annual riders with 72 routes and over 4,600 stops.



- A 28-mile Light Rail line, with 33 stops from south San Jose ending in Mountain View, serving over 7.4 million passengers annually.
- A 7.5-mile Light Rail extension which travels from north San Jose to Mountain View linking residential areas with major high-tech employers such as Cisco Systems, Rolm Siemens, Lockheed-Martin, Netscape, and Hewlett-Packard.
- CalTrain, a commuter rail service, with 32 stations. It runs from Gilroy through San Jose and north through the Peninsula CalTrain to San Francisco, serving about 3 million passengers annually.
- The innovative Eco Pass program by which employers can purchase annual photo ID public transit passes for employees at a significant discount.

SAN JOSE AT A GLANCE

BASIC CITY FACTS

FOUNDED: 1777; California's first civilian settlement

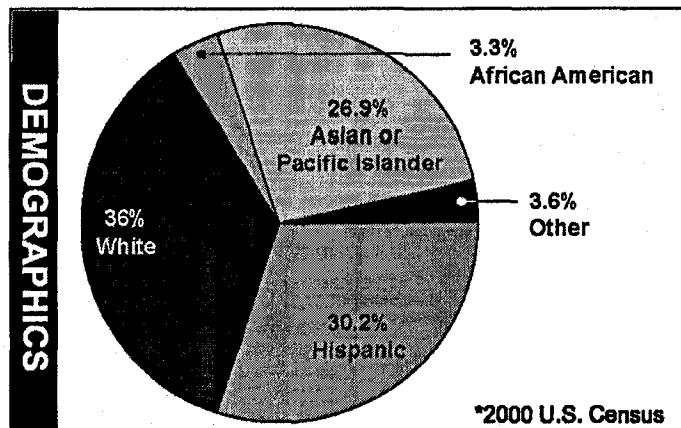
INCORPORATED: March 27, 1850, California's first incorporated City, and site of the first State capital.

GENERAL DATA

Population (projected as of January 2002)	918,000
Registered Voters	383,545
Median Household Income (HUD family of four as of 2002)	\$96,000

Demographics:

White	36%
Hispanic	30.2%
Asian/Pacific Islander	26.9%
Other	3.6%
African American	3.3%



Miles in Streets	2292
Miles in Alleys	2
Area of City (square miles, as of 2002)	177
Land Use:	
Single-Family	39.8%
Two-Family	1.8%
Multi-Family	4.9%
Mobile Home	0.7%
Commercial	3.5%
Industrial	14.2%
Schools	3.3%
Parks	9.7%
Right-of-way	15.5%
Vacant	6.6%

SAN JOSE AT A GLANCE

AIRPORT

Size	1,050 Acres
Terminals	2
Runways	3
Hours of Operation	24 Hours
Takeoffs Per Year:	
Commercial Airline Operations	145,271
Cargo Commercial Airlines Operations	6,582
Taxi/Commuter Commercial	5,690
General Aviation	97,661
Military Flights	295
Landings Per Day:	
Commercial	432
General Aviation	266
Number of Passengers Per Year	13.9 Million
Business	46%
Non-Business	53%
Parking Spaces:	
Short-Term Parking	3,100
Long-Term Parking	4,100
Services:	
Passenger Airlines	13
All-Cargo Airlines	8
General Aviation Based Aircraft	277



ENVIRONMENT AND UTILITIES

Miles of Municipal Sewer Mains	2,169
Number of Water Pollution Control Plants ¹	1
Number of Square Miles the Sanitary Sewer System Spans	300
Gallons of Wastewater the Plant has the Capacity to Treat Per Day	167 Million
Gallons of Wastewater Treated Per Day	122 Million
Number of Municipal Water Systems ²	1
Meters in Municipal Service Water Area	25,161
Miles of Water Mains	360
Gallons of Municipal Water Consumption Per Year	7.2 Billion
2001 Recycled Materials:	
Tons of Newspaper	24,086
Tons of Mixed Paper	38,509
Tons of Glass	8,980
Tons of Cardboard	122.44
Tons of Mixed Recyclables	28,940
Tons of Yard Trimmings	123,066
Gallons of Used Motor Oil	210,135



¹ Serving the San Jose, Santa Clara, Milpitas, Campbell, Cupertino, Los Gatos, Saratoga, and Monte Sereno areas.

² Serving the Evergreen, North San Jose, Alviso, Edenvale, and Coyote Valley areas.

SAN JOSE AT A GLANCE

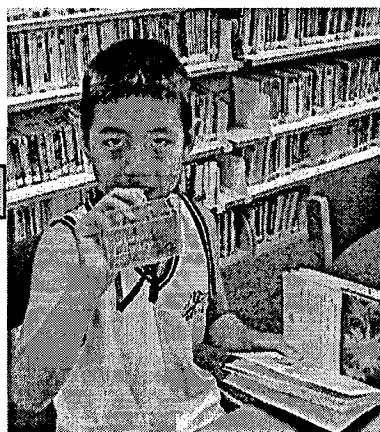
FIRE

Fire Stations	31
Companies	44
Pumpers:	
Front Line	31
Ready Reserve	7
Aerial Ladder and Elevated Platform Trucks:	
Front Line	8
Ready Reserve	3
Brush Rigs:	
Front Line	6
Ready Reserve	6
Crash Rescue Vehicles	3
Auxiliary Vehicles	20
Water Tenders	3
Fires Per Year	2,250
Hazardous Materials Incidents Per Year	600
Fire Safety Code Inspections Per Year	13,000



LIBRARIES

Number of Outlets:	
Main Library	1
Branches	17
Bookmobile	2
Items Checked Out (Circulation)	9,368,248
Books	1,743,382
Audio Visual Materials	77,956
Reference Questions	413,080



PARKING

Parking Meters	1,775
Parking Lots (2,198 total spaces)	15
Parking Garages (4,015 total spaces)	4

PARKS, RECREATION AND NEIGHBORHOOD SERVICES

Park Sites	149
Park Acreage	3,497
Playgrounds- Schools	515
Playgrounds- Parks	181
Community Centers	19
Senior Centers	5
Swimming Pools (not including schools)	5
Tennis Courts- Schools	185
Tennis Courts- Parks	95

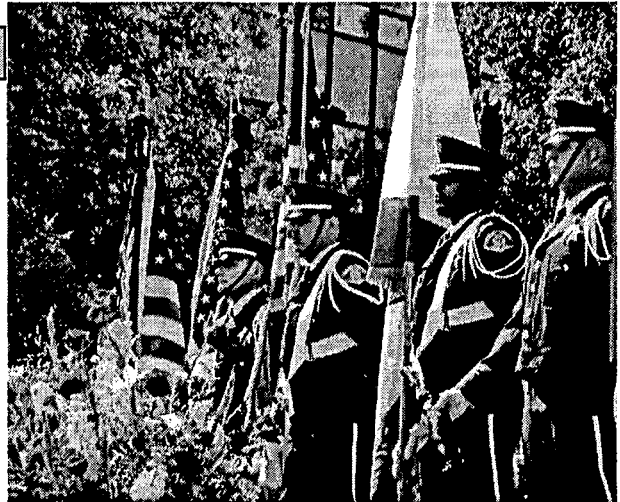
SAN JOSE AT A GLANCE

PARKS, RECREATION AND NEIGHBORHOOD SERVICES (CONT'D.)

Golf Courses	2
Sports Center	4
Youth Center	5
Number of Strong Neighborhoods Initiative Areas	18
Annual Participant Hours in Recreational Programs	178,625,677

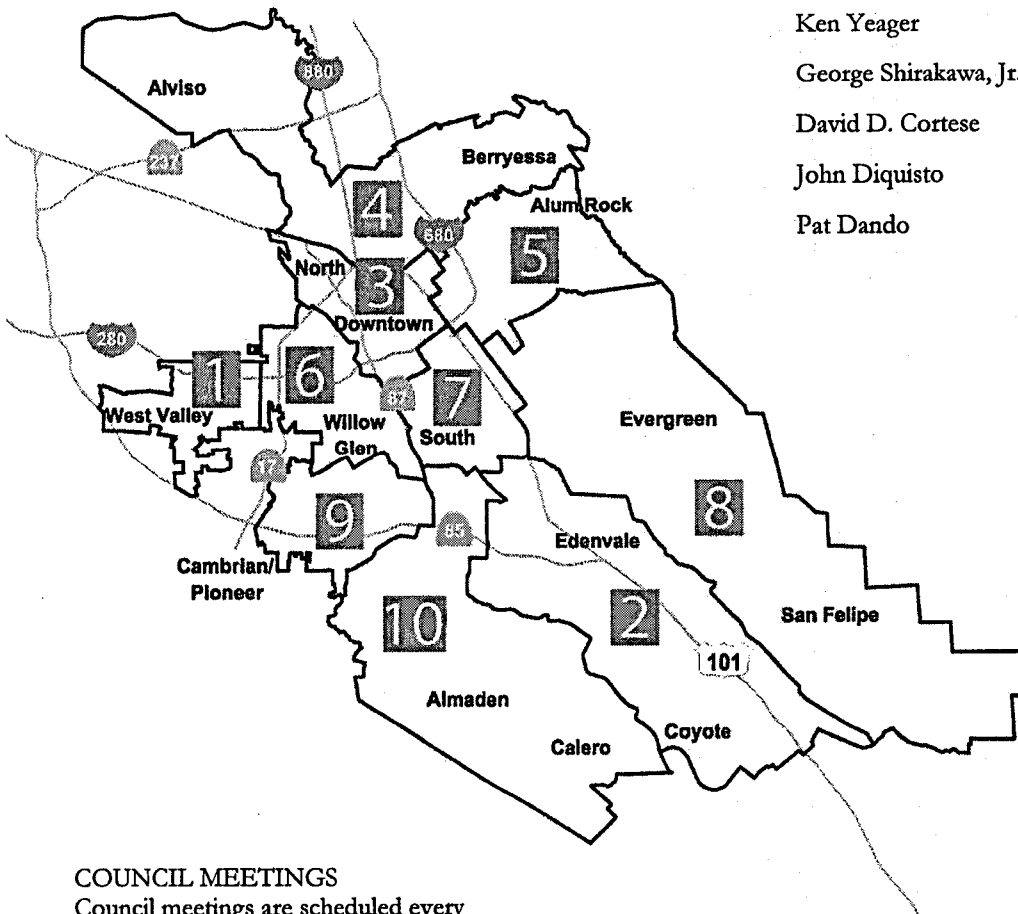
POLICE

Police Stations	1
Police Vehicles	404
Motorcycles	47
Horses	18
Dogs	14
Aircraft:	
Helicopter	1
Fixed Wing	1
911 Calls Per Year	220,612
311 Calls Per Year	292,922
Cases Investigated Per Year	25,000



CITY OF SAN JOSE ROSTER OF ELECTED OFFICIALS

**CITY OF SAN JOSE
COUNCIL DISTRICTS**



CITY COUNCIL	DISTRICT	TELEPHONE
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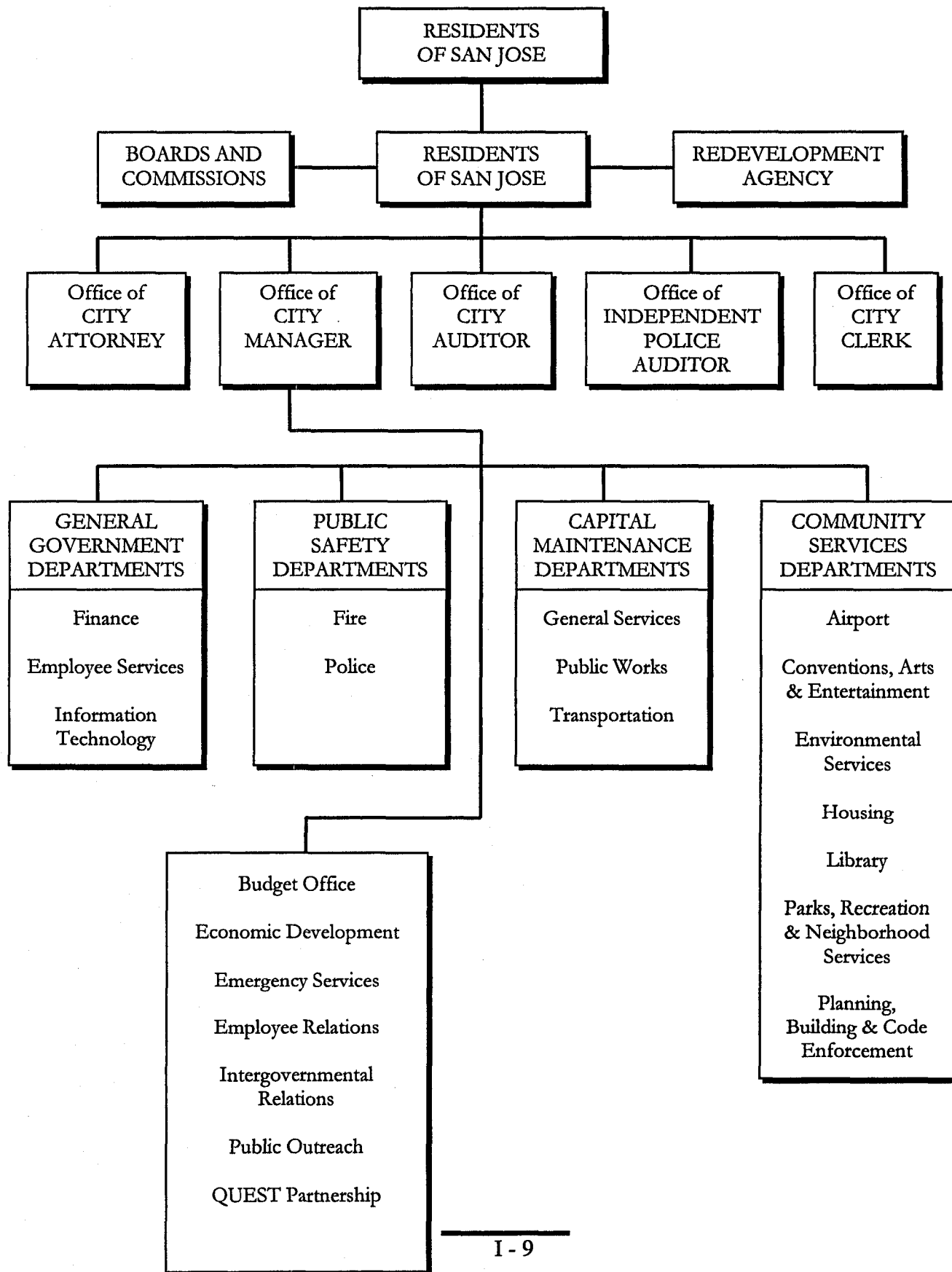
Ron Gonzales	Mayor	277-4237
Linda J. LeZotte	1	277-5438
Forrest Williams	2	277-4282
Cindy Chavez	3	277-5231
Chuck Reed	4	277-5320
Nora Campos	5	277-5157
Ken Yeager	6	277-5166
George Shirakawa, Jr.	7	277-5226
David D. Cortese	8	277-5242
John Diquisto	9	277-5275
Pat Dando	10	277-5251

COUNCIL MEETINGS

Council meetings are scheduled every Tuesday at 1:30 p.m. in the Council Chambers located at 801 North First Street.

- Evening meetings at 7:00 p.m. in addition to the afternoon meeting on the 1st and 3rd Tuesdays.
- Closed sessions every Tuesday at 9:30 a.m. in the Mayor's conference room.
- No Meetings are held in July when the Council is in recess.

CITY OF SAN JOSE CITY ORGANIZATION



STATE AND LOCAL LEGISLATIVE HIGHLIGHTS

Following is a list of significant State and Local legislation.

2000s Initiatives

Proposition O authorized the issuance of a \$159 million general obligation bond (Neighborhood Security Act Bond Measure) to improve San Jose's fire, police and paramedic response times by adding and improving fire stations and police stations, training facilities, and creating state of the art 911 communications facilities. Proposition O passed by the voters in 2001.

Proposition K approved an update to San Jose's General Plan to modify greenline/urban boundaries. Proposition K passed by the voters in 2000.

Proposition O authorized the issuance of \$212 million in bonds over ten years for the establishment of six new and fourteen expanded branch libraries in San Jose. Proposition O passed by the voters in 2000.

Proposition P authorized the issuance of \$228 million in general obligation bonds for the establishment of new and improved existing public parks in San Jose. Proposition P passed by the voters in 2000.

1990s Initiatives

Proposition 218 can be considered the fourth component of Proposition 13 in that it extended the two-thirds majority vote requirement for any new user fees or new taxes to be levied at the local level. Assessments, fees, and charges must be submitted to property owners for approval or rejection, after notice and public hearing. It also has the effect of reducing the bond ratings of all California

cities, including San Jose, meaning that future bond financings could potentially cost more. Proposition 218 passed by the voters in 1996.

Proposition I authorized the construction of a new City Hall, located in downtown San Jose. Proposition I passed by the voters in 1996.

Proposition 172 enacted a half-cent sales tax increase. Monies derived from this tax must be utilized solely for public safety services. Revenue is distributed to cities and counties for purposes such as police, sheriffs, fire, district attorneys and corrections. Proposition 172 passed by the voters in 1993.

Proposition I established term limits for the City. City Council members and the Mayor can only serve for two successive four-year terms in office. Proposition I passed by the voters in 1990.

Proposition 111 enacted a statewide traffic congestion relief program and changed the procedures for calculating the Gann Limit by updating the spending limit on state and local government to better reflect the needs of a growing California population. It provided new revenues to be used to reduce traffic congestion by building state highways, local streets and roads, and public mass transit facilities. Proposition 111 passed by the voters in June of 1990.

Proposition 8 allowed a property owner to file an assessment appeal when the market value of the property is less than the current assessed value. If the appeal is successful, the assessed valuation is lowered to reflect current market conditions. Proposition 8 also provided that the value of reassessed properties may be increased to previous levels when market values increase. Proposition 8 passed by the voters in 1990.

STATE AND LOCAL LEGISLATIVE HIGHLIGHTS

1980s Initiatives

Proposition C authorized the City to use public funds to build low-rent housing. Proposition C passed by the voters in 1988.

Proposition H authorized the City to build a sports arena, currently known as the Compaq Center at San Jose. Proposition H passed by the voters in 1988.

1970s Initiatives


Proposition 13 placed a substantial limitation on the ability of local governments to collect sufficient property taxes commensurate with the historical role this revenue source has played in funding both municipal operations and new public facilities. Proposition 13 specified that an assessed value may increase at the rate of the Consumer Price Index, not to exceed 2 percent per year based on the 1979 value, unless the property is improved or sold to establish new market value. Proposition 13 passed by the voters in 1979.

Proposition 4, otherwise known as the "Gann Limit," stipulated that the City must compute an annual appropriations limit which places a ceiling on the total amount of tax revenues the City can appropriate annually. The limit is adjusted each year using the following criteria: (1) the percentage change in California Per Capita Income or the change in the City's Assessed Valuation due to new nonresidential construction, whichever is greater and (2) the percentage change in the City-wide population, whichever is greater. Proposition 4 passed by the voters in 1979.

1890 – 1970 Initiatives

1965 – Passed by the voters in 1965, the City Charter reaffirms the Council-Manager form of government in San Jose. The City consists of 10 council members elected by district and a Mayor elected at large.

1897 – The City Charter was adopted in 1897. The Charter generally establishes the organization and structure of City government. The Charter also empowers the City Council to make and enforce all ordinances and regulations with respect to municipal affairs subject only to the limitations specified in the Charter.

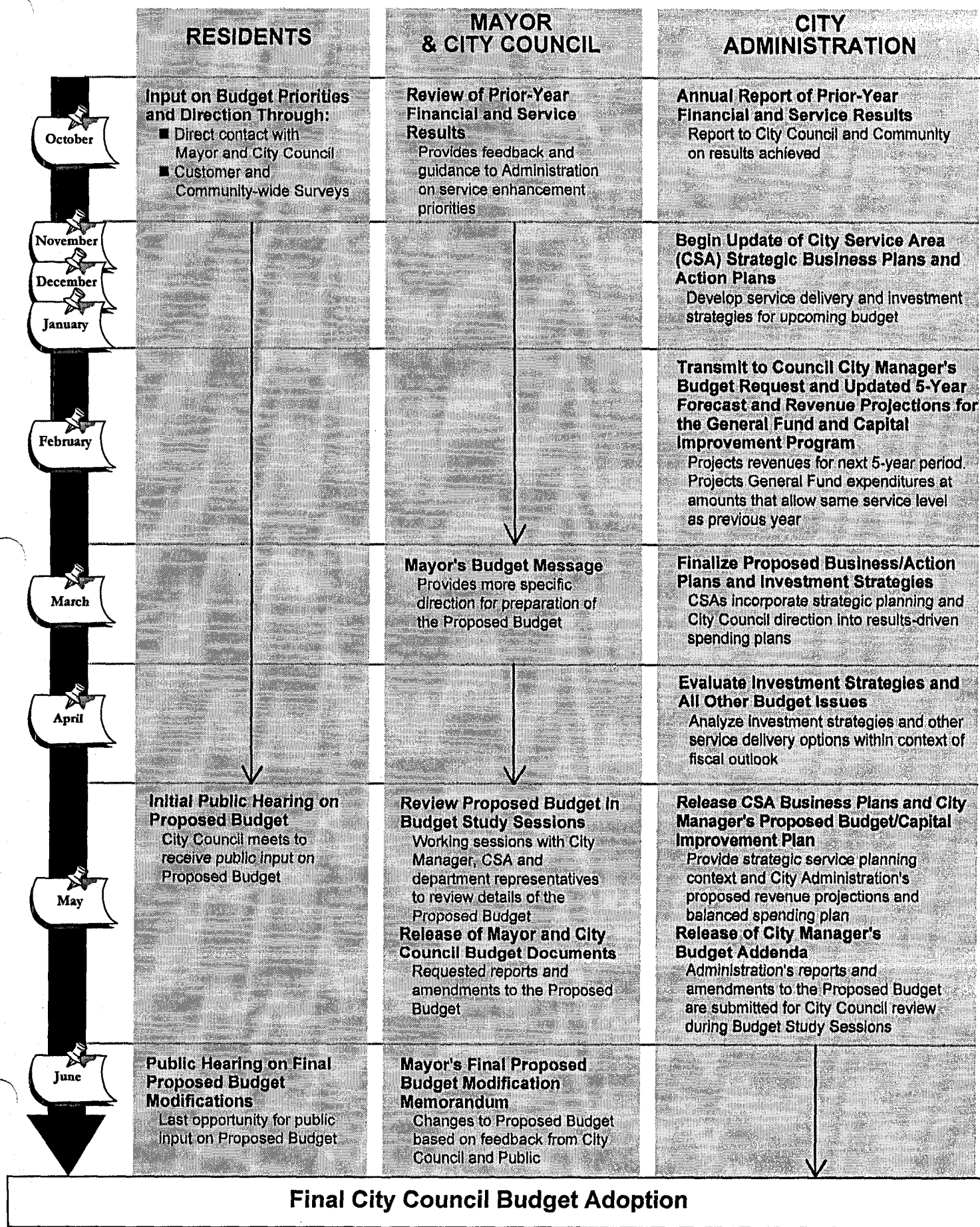


2002-2003

OPERATING BUDGET

**BUDGET
GUIDE**

CITY OF SAN JOSE ANNUAL BUDGET PROCESS



CITY OF SAN JOSE

BUDGET GUIDE

The Operating Budget document includes the **City Manager's Budget Message**, outlining major policy issues and changes to City programs. The **Community Profile** section includes basic City data as well as a listing of State and Local Legislative Highlights. **Summary Information** of expected revenues and expenditures is then presented, along with comparative five-year **History and Trend** information of revenues, expenditures, and staffing. The **Budget Policies and Practices** as well as assumptions used to develop **General Fund Revenue Estimates** are also presented. The remaining Operating Budget document is organized by the following sections:

City Service Areas

City Service Areas (CSAs) align services provided in individual departments into the City's seven key lines of business as viewed from the community's perspective. A collection of core services from various partner departments, CSAs show the results of the collaboration among the departments at a higher organizational level:

- Aviation Services
- Economic and Neighborhood Development
- Environmental and Utility Services
- Public Safety
- Recreation and Cultural Services
- Transportation Services
- Strategic Support

Strategic Support represents functions that provide organization-wide guidance and support to enable the delivery of the City's direct services.

The City Service Areas (CSA) section includes an introductory overview of the CSA concept, structure and role in strategic planning and cross-departmental management of service delivery. Individual sections on each of the seven CSAs follow, providing a summary of the CSA's Business Plan including highlights of the CSA's strategic goals and investment strategy, current and planned performance, and recommended investments to achieve CSA outcomes.

City Departments

Next, the **City Departments** are presented, organized alphabetically for 2002-2003. The 2002-2003 Adopted Budget reflects the final year of the three-year transition of all departments to a performance-based budget presentation. As the first step in the transition to a performance-based budget, all departments and City Council appointees identified their major lines of business or "Core Services" delivered to customers. Department budget sections are now presented by Core Service, with newly-developed performance measures for each. The Core Service sections include descriptions of budget changes by CSA outcome and performance results anticipated.

The sections below describe the information provided for each department:

CITY OF SAN JOSE

BUDGET GUIDE

City Department Summary Section

Each department section begins with a brief synopsis of the department, including the **Mission Statement**, **Core Services Chart**, **Budget Summary**, **Budget Highlights for 2002-2003**, and a **Budget Byte** (a graph or chart) that describes one or more of the department's key indicators or performance measures. The purpose of the Budget Byte is to communicate key information to support the overall performance and resource discussion for the department such as growth in demand, progress toward multi-year goals, or benchmarking comparisons.

This department synopsis is followed by a **Department Overview** that addresses key policy and service delivery issues from the department (i.e., organization) point of view. The Department Overview also portrays how the department and each of its Core Services align to City Service Areas and contribute to CSA Business Plan outcomes and strategic goals.

The narrative overview is followed by a **Department Budget Summary**, which is a table that reflects funding by core service (rather than previously displayed program areas), category, and funding source for four separate points in time: Actual Expenditures for 2000-2001, Adopted Budget for 2001-2002, 2002-2003 Forecast (Base Budget), and the 2002-2003 Adopted Budget. As noted in each table, as part of the transition to a performance-based budget, Core Service information is now displayed for 2002-2003 Forecast and Adopted Budget data, while Program information is now only available for 2000-2001 Actual and 2001-2002 Adopted Budget data. Total Authorized Positions are also provided. The department overview ends with a **Budget Reconciliation** showing significant Base Budget adjustments (such as negotiated salary and benefit changes and contractual obligations) from the prior year's Adopted Budget and a listing of Investment/Budget Proposals Approved for 2002-2003.

Core Service Section

The **Core Service** section represents the major lines of business conducted by departments. Core Services were developed during 1999-2000 by engaging departmental staff at all levels, as well as the public, in discussion of the department's major services and mission. The results of those discussions were reviewed by the City Council in December 1999 (Milestone I of the "Investing in Results" effort) and are used to align departmental services with related performance and resources for budgeting and management decision-making.

Each department also presents a **Strategic Support** section, describing the various leadership and support functions that provide guidance and assistance in delivery of one or more of the department's core services.

The **Core Service Purpose** is a brief statement of why the Core Service exists, such as "Provide programs and services through community education and partnerships to reduce criminal activity and enhance public safety" (Crime Prevention and Community Education). The statement unifies the various operational services provided and activities performed by the Police Department. The **Key Operational Services** section lists titles of specific operational services delivered within the Core Service.

CITY OF SAN JOSE

BUDGET GUIDE

The **Performance and Resource Overview** section explains the performance results and expenditures for the current fiscal year, any changes approved for the next year, and the anticipated costs and results of the approved changes, if any. The narrative should answer the following questions:

- **What does the performance information show?** Reasons for variances between targets and actuals/estimates or further explanation of the meaning of the targets and levels of service are included.
- **Why is performance at that level?** The narrative explains the reasons behind the numbers. Also, if a measure averages the response times or costs of several different operations, the explanation will detail which areas are driving the average up or down and why.
- **What is being done to address any identified performance issues?** The narrative will note any productivity efforts, technology or systems changes to be implemented towards this end.
- **What will be the result of the adopted changes?** Finally, the anticipated impacts of budget changes will be translated into the performance or activity targets for the next fiscal year. The adopted changes should be related to performance at some level, even if the overall performance measures will not be affected. For example, if an addition is recommended to maintain current service levels, the narrative should note that demand or workload is increasing, and without such an addition, performance could deteriorate.
- **How will Core Service efforts contribute to relevant City Service Area Outcomes, Goals and Performance Targets as set forth in CSA Business Plans?** Where applicable, the connection should be made between Business Plan strategies and front-line service delivery.

Any other narrative information that is of interest in the context of performance or resources also may be discussed in this section, including what major issues will be faced by the Core Service in the next fiscal year.

If necessary, the **Performance Measure Development** subheading of the Performance and Resource Overview will indicate and provide a rationale for any Core Service performance measures revised since the prior year's budget document.

The **Performance Summary** section presents the measures and data to be used in evaluating Core Service results. Most Core Services will include measurements developed to describe the results expected in the four key measurement areas:

- 🎯 **Quality** - How well is the service doing what it is intended to do?
- 💰 **Cost** - What resources are used to achieve results?
- 🕒 **Cycle Time** - Timeliness of service delivery.
- 👤 **Customer Satisfaction** - How customers view the City's service efforts.

CITY OF SAN JOSE

BUDGET GUIDE

Attempts were made to limit the total number of measures shown by combining similar types, such as Customer Satisfaction measures for all operational services within the Core Service. If an operational service's performance needs to be discussed separately to explain the overall Core Service performance, this is described in the Performance and Resource Overview narrative.

Note: Performance measures are not generally reported for departmental Strategic Support functions, unless, by exception, to present performance information that cannot otherwise be communicated through Core Service results measures.

The **Activity and Workload Highlights** section highlights the scope and extent of the workload demand and the activities completed. For example, while the Performance Summary section focuses on percentages of workload accomplished successfully, the Activity and Workload section may provide a count of the total workload attempted/completed.

The **Resource Summary** is the budget information section that displays all department operating funds that contribute to the performance of the Core Service. Costs and budget information for personal services and non-personal/equipment are illustrated for each Core Service provided. Additional resources from City-Wide Expenses, Special Funds and/or Capital Funds that also contribute to the performance of the Core Service and CSA are displayed elsewhere in the budget document. The second part of this section illustrates the authorized positions assigned to the Core Service. These position figures include full-time and part-time permanent positions.

The details of adopted **Budget Changes by Core Service** for 2002-2003 are provided in the next section of the document. Included for each change is a description of what is to be added or deleted, the need for the approved change, the amount and nature of the funding involved, and performance results expected to occur when the action is implemented. The **Performance Results** are intended to describe, in quantitative terms wherever possible, the expected "return on investment" when the change is approved. This information is characterized by one or more of the four key measurement areas: Quality, Cost, Cycle Time, Customer Satisfaction. To illustrate the connection to the CSA Business Plans, the Budget Changes are grouped to show their contribution to the goals and outcomes of the various CSAs. Within each Core Service, Budget Changes will be grouped under the CSA Outcome to which they contribute.

City-Wide

The next major section of the budget includes allocations that relate to more than one department or are not directly associated with ongoing departmental operations. For 2001-2002, **City-Wide Expenses** were re-categorized to align to the CSAs to which they primarily contribute. **General Fund Capital, Transfers, and Reserves** budget information is also located in this section.

CITY OF SAN JOSE

BUDGET GUIDE

Inter-Departmental Programs

The **Inter-Departmental Programs** section was added to the department-style written summaries for certain special funds (Community Development Block Grant, Healthy Neighborhoods Venture Fund, Integrated Waste Management Fund, Sewer Service and Use Charge Fund, Storm Sewer Operating Fund, and Transient Occupancy Tax Fund). These funds support activities in several departments. Each summary provides an overview of the fund's status, detail on the major areas of each fund's sources and uses, and performance and service delivery issues for the upcoming year.

Detail of Departmental Positions

The **Departmental Position Detail** provides the authorized positions for each department and provides a two-year history of changes.

Source & Use of Funds Statements

The **Statements of Source and Use of Funds** detail projected revenues, expenditures, and fund balances included for all budgeted operating (special) funds.

CITY OF SAN JOSE BUDGET GUIDE

Glossary of Terms

Appropriation

The legal authorization granted by the City Council to the Administration to make expenditures and incur obligations for purposes specified in the Appropriation Ordinance.

Base Budget

Ongoing expense level necessary to maintain service levels previously authorized by the City Council.

Business Plan

A strategic planning tool, including a short-term action plan, used to guide the evaluation and prioritization of service delivery needs, the allocation of resources, and the measurement of results. CSA Business Plans have a five-year planning horizon to project long-term service priorities and needs as well as the CSA's planned response to address those needs. Each CSA Business Plan contains a one-year Action Plan specifying the actions to be accomplished and the performance targets to be achieved given the allocated resources.

Capital Budget

A financial plan of capital projects and the means of financing them for a given period of time.

Capital Improvement Program (Five-Year)

A plan, separate from the annual budget, which identifies all capital projects to be undertaken during a five-year period along with cost estimates, method of financing, and a recommended schedule for completion.

Carryover

Unspent funds, either encumbered, reserved, or unobligated, brought forward from prior fiscal years.

City Service Area (CSA)

City Service Areas integrate Core Services provided by individual departments into the City's key lines of business, as viewed from the community's perspective. A collection of Core Services from various partner departments, CSAs enable the City to plan and show results of the collaboration among the departments at a higher organizational level. There are seven CSAs, six of which deliver direct services. The seventh, Strategic Support, represents functions that provide guidance and support contributing to the delivery of direct services.

CSA Partners

Primary (or internal) **Partners** include those departments with Core Services most directly responsible for overall CSA service delivery. **Contributing Partners** include departments with operational services that contribute indirectly to CSA service delivery. **External Partners** include organizations outside the City that collaborate with or complement City efforts toward achieving CSA outcomes.

Community Indicator

Data used to describe the broad context of physical, environmental, economic, social, or other conditions. Community Indicators relate information about the state of the policy and service delivery environment that assist in determining needs and progress toward achieving the City's selected Outcomes.

Contingency Reserve

An appropriation of funds to cover unforeseen events during the budget year, such as floods, emergencies, newly required programs, shortfalls in revenue or other eventualities.

CITY OF SAN JOSE BUDGET GUIDE

Glossary of Terms (Cont'd.)

Contractual Services

Operating expenditures for services provided by outside organizations and businesses, including maintenance contracts, management services, etc.

Core Services

The City departments' key lines of business. Core Services produce the primary deliverables of a department.

Debt Service

The amount required to pay interest on and to retire the principal of outstanding debt.

Encumbrance

Financial obligations such as purchase orders, contracts, or commitments which are chargeable to an appropriation and for which a portion of the appropriation is reserved.

Fiscal Year

A 12-month accounting period to which the annual budget applies; for San Jose, it is the period from July 1 through June 30.

Fund

An independent fiscal and accounting entity used to account for all financial transactions related to the specific purpose for which the fund was created by ordinance.

Fund Balance

The difference between total receipts and total expenditures over time.

General Fund

The primary operating fund used to account for all the revenues and expenditures of the City which are not related to special or capital funds.

Infrastructure Management System (IMS)

The City's computerized system used to identify the condition of streets, sewers and other infrastructure, forecast maintenance needs and project future replacement expenditures.

Investing in Results

The City's service delivery framework that aligns City services with desired results for the community, using performance measures to track progress, make improvements and guide investment decisions

Mission

A unifying statement of why an organization exists.

Non-Personal/Equipment Expenses

Operating costs which are not related to personnel, such as supplies, training, contract services, utilities, and vehicles.

Ongoing Cost/Savings

The 12-month value of partial year additions or reductions.

Operating Budget

A financial plan for the provision of direct services and support functions.

Operational Services

Elements of Core Services, necessary to accomplish the Core Services of the organization. The "front line" of service delivery.

Outcome

A desirable overall condition, or "Picture of Success". At the City Service Area level, the specified outcomes are the "ends" toward which the plans, efforts, resources and results of the CSA are directed.

CITY OF SAN JOSE BUDGET GUIDE

Glossary of Terms (Cont'd.)

Performance Measure

Measures the results of services delivered to customers. Performance measures fall into the four Key Measurement Areas of Quality, Cost, Cycle Time, and Customer Satisfaction. Performance measures are developed at the CSA, Core Service, and Operational Service levels.

Performance Measure (PM) Goals/Targets

Quantitative benchmarks for each Performance Measure. **PM Goals** represent the optimum performance level, or the long-range (typically 5 years out), planned level of performance identified in the CSA Business Plan. **PM Targets**, for CSA's and departmental Core Services, represent the one-year performance level commitment, given allocated resources.

Personal Services

Salary and fringe benefit costs of City employees.

Rebudget

Unspent or unencumbered prior year funds reauthorized for the same purpose as previously approved, usually as a result of delayed program implementation.

Reserve

Funds budgeted for a particular purpose but not authorized for immediate obligation.

Special Purpose Funds

Funds, exclusive of the General Fund and capital funds, which are separately administered because they are associated with a distinct function or enterprise.

Strategic Goals/Objectives

Represent elements or sub-elements of a strategic plan. The City's planned response to address service delivery needs and priorities. Strategic goals and objectives are guided by the related Outcomes and Community Indicators, but represent only the City's contribution toward those Outcomes and Indicators. Strategic goals and objectives also determine how the City's Core Services, Operational Services, and special projects should be aligned and directed toward producing the planned service delivery response.

Strategic Support

Includes various functions that support and/or guide delivery of Core Services. Examples include financial and human resources administration, purchasing and training as well as strategic leadership and policy development.

Transfers

Transfers between funds to account for reimbursements for services, overhead expenses, or other payments.

Values

Values guide behavior in carrying out the work of the organization.

Vision

A guiding statement describing a desirable future state toward which efforts should be directed. An effective vision statement inspires creativity while keeping an organization "on track" for the future by aligning its priorities.

CITY OF SAN JOSE BUDGET GUIDE

Fund Descriptions

Anti-Tobacco Master Settlement Agreement Revenue Fund ("Healthy Neighborhoods Venture Fund")

Accounts for the distribution of the funds received by the City of San Jose related to the national tobacco settlement. The funds are allocated as follows: 25% for Anti-Tobacco/Health programs, 50% for Education/Health programs, and 25% for Seniors/Health programs.

Arterial and Major Collectors Fund

Accounts for the collection of monies owed by developers for previously completed street improvements.

Benefit Funds

Consist of the Dental Insurance, Life Insurance, Unemployment Insurance and Employee Benefit Funds. These funds account for the provision and financing of benefits to City employees, retirees, and their dependents.

Branch Libraries Bond Projects Fund

Accounts for General Obligation bond proceeds approved by voters on the November 2000 ballot (Measure O). The use of this fund is dedicated to acquisition of property, and expansion and construction of branch libraries.

Building and Structures Construction Tax Fund

Tax on residential, commercial, and industrial development. The use of these funds, along with grant revenues, is restricted to traffic capital improvements on major arterials and collectors, including bridges, culverts, lighting and traffic control systems which increase traffic volume.

Business Improvement District Fund

Accounts for assessments involving Business Improvement District activities.

Cash Reserve Fund

Revolving fund for the payment of authorized expenditures for any fiscal year in anticipation of and before the collection of taxes and other revenues for such fiscal year, and for payment of authorized expenses for any fiscal year that must be paid prior to the receipt of tax payments and other revenues for such fiscal year.

Central Service Yard Acquisition and Development Fund

Accounts for bond proceeds for the acquisition and development of a new central service yard.

Civic Center Construction Fund

Accounts for the revenues and construction costs related to the construction of a new Civic Center.

Civic Center Parking Fund

Accounts for bond proceeds for construction of Civic Center parking garages.

CITY OF SAN JOSE

BUDGET GUIDE

Fund Descriptions (Cont'd.)

Community Development Block Grant Fund

Accounts for Federal grant monies received from the Housing and Urban Development Department under Title II of the Housing and Community Development Act of 1974 and Rental Rehabilitation Program funds.

Community Facilities Revenue Fund

Accounts for the rental revenues received from the Hayes Mansion and the Ice Centre operations and provides for the accumulation and transfer of base rental income to the appropriate debt service funds for repayment of the facilities-related debts.

Construction Excise Tax Fund

Tax on the construction of residential, commercial and mobile home developments (also referred to as the Commercial, Residential, Mobile Home Park Building Tax). This tax is based on building valuation, with the majority of the revenues in the fund historically being used for traffic improvements.

Construction Tax and Property Conveyance Tax Funds

The Construction Tax is a flat rate assessed to residential, commercial and industrial development. The Property Conveyance Tax is a fee imposed at a rate of \$3.30 for each \$1,000 of the value of property conveyed. Construction and Property Conveyance Tax Funds are dedicated to the Park and Community Facilities Development, Communications, Fire, Library and Service Yards capital programs.

Convention and Cultural Affairs Fund

Established to manage and operate the San Jose McEnery Convention Center, Center for the Performing Arts (CPA), Civic Auditorium, Montgomery Theatre, Exhibit Hall, and their related facilities and grounds. The fund also contains the operating budget and several grant programs for the Office of Cultural Affairs.

Economic Development Administration Loan Fund

Accounts for Federal funds received from the Economic Development Administration Loan program for eligible administrative expenses and loans to small businesses.

Economic Development Enhancement Fund

Accounts for Federal funds received from the Economic Development Administration program for eligible administrative expenses and loans to small businesses.

Emergency Reserve Fund

Accounts for reserves established from local revenues to meet public emergencies.

Emma Prusch Memorial Park Fund

Established for the development and improvement of Emma Prusch Memorial Park.

Federal Drug Forfeiture Fund

Accounts for Federal drug forfeiture monies received pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Codes. City Council guidelines for this fund stipulate that seizure monies be used for the financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities.

CITY OF SAN JOSE BUDGET GUIDE

Fund Descriptions (Cont'd.)

Federated Retirement Fund

Established to account for the accumulation of resources to be used for retirement annuity payments to all full-time and some eligible part-time City of San Jose employees, except members of the Police and Fire Retirement System.

Fiber Optics Development Fund

Accounts for the installation of a fiber optic conduit system that the City will own and lease to telecommunication companies and other users.

Gas Tax Maintenance and Construction Funds

Represent the City's portion of the State collected Gas Tax. Revenues are restricted for acquisition, construction, improvement, and maintenance of public streets subject to provisions of the Streets and Highways Code of the State of California and to provide for Traffic capital improvements.

General Purpose Parking Fund

Accounts for operation of City parking lot facilities, parking lots and parking meters located within the City. Financing and capital construction of certain parking facilities are also accounted for within this fund. The Parking System provides parking to the general public and is financed through parking fees.

Gift Trust Fund

Established to receive gifts, donations and bequests.

Home Investment Partnership Program Fund

Accounts for all monies allocated to the City by the U.S. Department of Housing and Urban Development for affordable housing projects pursuant to the HOME Investment Partnership Act.

Housing and Homeless Fund

Established in February 1993 to assist non-profit service providers and organizations by providing one-time grants for housing-related projects.

Integrated Waste Management Fund

Accounts for activities related to the Integrated Waste Management Program which includes garbage collection, recycling services and related billing operations. The fund collects revenues from the City's Recycle Plus program. These funds are expended for programs related to the City's efforts to comply with State law requiring cities to reduce waste sent to landfills by the year 2000, along with other integrated waste management services.

Lake Cunningham Park Fund

Accounts for the parking fees and lease payment revenues used for the purchase of equipment, maintenance and operations at Lake Cunningham Park.

Library Benefit Assessment District Fund

Accounts for the annual assessment revenues to be used for enhancing the City's library services and facilities.

CITY OF SAN JOSE BUDGET GUIDE

Fund Descriptions (Cont'd.)

Local Law Enforcement Block Grant Fund (Memo Fund to the General Fund)

Accounts for the funding received from the federal government in support of the Local Law Enforcement Block Grant Program. These grant funds are used to support law enforcement activities such as training, overtime for law enforcement officers, procurement of equipment, technology and other material directly related to law enforcement functions.

Low and Moderate Income Housing Fund

Accounts for San Jose Redevelopment Agency tax increment funds received to provide affordable housing rehabilitation and new housing programs. Funds are available for eligible administrative expenses, loans and grants.

Municipal Golf Course Fund

Accounts for the construction, management and operation of various golf courses and is financed through user charges.

Municipal Health Services Program Fund

Established to account for money received from the Medicare Waiver Demonstration Project funded by the Health Care Financing Administration (HCFA) of the U.S. Department of Health and Human Services and disbursements made by the City to various health care clinics on behalf of HCFA. Funding is used to provide community-based health care services to Medicare recipients at four San Jose clinics.

Municipal Water System Funds

Funds were established to account for the five water system operating districts: North San Jose, Evergreen, Coyote, Edenvale, and Alviso. The water system provides services to the general public on a continuing basis and is financed through user charges.

Neighborhood Security Act Bond Fund

Accounts for General Obligation Bond proceeds authorized by voters on the March 2002 ballot (Measure O). The use of this fund is dedicated to acquisition of real property and construction and rehabilitation of public safety-related facilities.

Norman Y. Mineta San Jose International Airport Capital Funds

Finances the Airport's capital expenditures and consist of the following: Airport Capital Improvement Fund; Airport Revenue Bond Improvement Fund; Airport Renewal and Replacement Fund; and the Airport Passenger Facility Charge Fund.

Norman Y. Mineta San Jose International Airport Operating Funds

Finances the operation of the Airport and consist of the following: Airport Revenue Fund; Airport Maintenance and Operation Fund; Airport Surplus Revenue Fund; Customer Facilities and Transportation Fee Fund, and the Airport Fiscal Agent Fund.

Parks and Recreation Bond Projects Fund

Accounts for General Obligation bond proceeds approved by voters on the November 2000 ballot (Measure P). The use of this fund is dedicated to acquisition of property, and upgrades and construction of neighborhood parks, community centers, trails, regional parks and sports complexes.

CITY OF SAN JOSE BUDGET GUIDE

Fund Descriptions (Cont'd.)

Police and Fire Retirement Funds

Account for the accumulation of resources to be used for retirement annuity payments to all sworn officers of the City of San Jose's Police and Fire Departments.

Redevelopment Agency Capital Project Funds

Funds paid directly by the Redevelopment Agency for construction and acquisition of public improvements on behalf of the Agency and are contained in a number of Redevelopment Capital Project funds. To the extent project expenditures do not occur, revenues are not transferred.

Residential Construction Tax Contributions Fund

Accounts for taxes imposed upon the constructor of single-family dwelling units or any mobile home lots in the City. The tax is collected and placed in the Residential Construction Tax Fund and is used to reimburse developers who have constructed that portion of an arterial street that is wider than what is normally required in connection with residential development. The funds are also used to construct median island landscaping and other street improvements.

Sanitary Sewer Connection Fee Fund

Accounts for connection fees charged to new development to access the City's sanitary sewer system and the regional San Jose/Santa Clara Water Pollution Control Plant (WPCP). Funds are restricted to the construction and reconstruction of the system.

Special Assessment Maintenance and Community Facilities Districts Funds

Account for the maintenance and administration of assessment districts throughout the City.

State Drug Forfeiture Fund

Established to account for State drug forfeiture monies received whenever the Police Department is involved in asset seizures from convicted drug law violators. City Council guidelines for this fund stipulate that seizure monies be used for the financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities.

Stores Fund

Accounts for the purchase and issuance of materials and supplies consumed by the departments for their general operations.

Storm Drainage Fee Fund

Accounts for fees collected from developers as a result of connections to the storm drainage sewer system which may be used for construction, reconstruction and maintenance of the storm drainage system and for land acquisition for such system.

Storm Sewer Capital Fund

Accounts for revenues collected from owners of properties that benefit from the storm drainage system. Funds may be used for the construction and reconstruction of the storm drainage system.

Storm Sewer Operating Fund

Accounts for revenues collected from owners of properties that benefit from the storm drainage system. Funds may be used for the maintenance and operation of the storm drainage system. Expenditures are focused on non-point source pollution reduction, along with maintenance and operation of the storm drainage system.

CITY OF SAN JOSE BUDGET GUIDE

Fund Descriptions (Cont'd.)

Subdivision Park Trust Fund

Accounts for payments of fees in lieu of dedication of land for park and recreation purposes in residential subdivisions. Monies in the fund, including accrued interest, may be expended solely for the acquisition or development of improvements on parkland to serve the subdivision for which the fees were paid.

Supplemental Law Enforcement Services Fund

Accounts for revenues received from the State of California (AB 3229) to be used for front-line municipal police services.

Transient Occupancy Tax Fund

Assessed as a percentage of the rental price for transient occupancy lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, 6% of which is placed in this fund and 4% of which is deposited in the General Fund. The uses of revenues from this source are specified by City Ordinance and include grants and rental subsidies for Fine Arts and cultural programs, and subsidies for the San Jose Convention and Visitors Bureau and the Conventions, Arts, and Entertainment Department.

Underground Utility Fund

Accounts for revenues received as assessments and fees for the City's costs and expenses to place certain utility facilities underground. The Underground Utility Program implements the City's General Plan goals and policies, which state that the City should encourage the movement of existing overhead utilities underground. The fund is used to establish Rule 20B Underground Utility Districts.

Vehicle Maintenance and Operations Fund

Accounts for the operation, maintenance and replacement of City vehicles and equipment. The fund also supports the Alternative Fuel Grant Program.

Wastewater Treatment Plant and Sewer System Capital Funds

Accounts for the construction of improvements to the regional San Jose/Santa Clara Water Pollution Control Plant (WPCP) and the purchase of equipment. The Sewer Service and Use Charge Capital Improvement Fund receives a transfer from the Sewer Service and Use Charge Operating Fund for the reconstruction of the sanitary sewer system.

Wastewater Treatment Plant and Sewer System Operating Funds

Account for the ongoing operations of the sewer system and the regional San Jose/Santa Clara Water Pollution Control Plant (WPCP).

Workforce Investment Act Fund (Memo Fund to the General Fund)

Accounts for the administration of a federal program that provides primary employment and training services to dislocated and low-income residents.